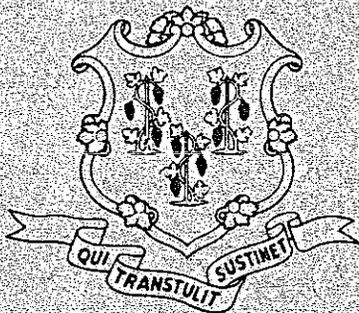


Performance Audit: Bureau of Purchases

Connecticut
General Assembly



LEGISLATIVE
PROGRAM REVIEW
AND
INVESTIGATIONS
COMMITTEE

December 1989

CONNECTICUT GENERAL ASSEMBLY

LEGISLATIVE PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE

The Legislative Program Review and Investigations Committee is a joint, bipartisan, statutory committee of the Connecticut General Assembly. It was established in 1972 to evaluate the efficiency, effectiveness, and statutory compliance of selected state agencies and programs, recommending remedies where needed. In 1975, the General Assembly expanded the committee's function to include investigations, and during the 1977 session added responsibility for "sunset" performance reviews. The committee was given authority to raise and report bills in 1985.

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CONNECTICUT STATE PURCHASING SYSTEM

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SUMMARY

The Legislative Program Review and Investigations Committee authorized a performance audit of the state's purchasing system, with particular emphasis on the Department of Administrative Services' Bureau of Purchases. The bureau is responsible for procuring all goods and services required by the state. The primary focus of the audit was on the bureau's procurement process including the competitive bidding process, operation of the Central Warehouse, process for setting standards, testing and inspection of goods and services, and disposal of surplus property.

The program review committee found two major areas where the bureau operates well. First, contract files that were examined as part of the review were comprehensive and orderly, with the lowest bidder being chosen in the vast majority of cases. Secondly, the bureau was rated favorably in most areas by agency purchasing officers in a survey conducted by the program review committee. For example, 58 percent of the respondents believed that the time it takes the bureau to process a purchase request was "about right", with only 8 percent indicating that it takes "too long". Further, 88 percent noted that the purchasing process was "clearly defined". The performance of the bureau's Central Warehouse was also rated well by the purchasing officers.

However, the report finds that deficiencies still exist and that the bureau's operation can be improved in several areas. First, the bureau's involvement in the procurement process ends at a very crucial point. It is responsible only for the contractual phase of the process. The actual purchase of goods or services is done by the requisitioning agency and payment is made by the comptroller's office. Issuance of purchase orders, invoices, and checks is not within the bureau's purview.

Furthermore, the bureau does not review or match purchase orders with original contracts or invoices, nor are the checks issued by the comptroller's office for vendor payment matched with corresponding purchase orders or contracts. This results in a situation where the bureau's buyers do not know if the requisitioning agency actually purchased or received what it contracted for originally.

After comparing the state's procurement system with the systems of Aetna Life and Casualty, Connecticut Hospital Association, and the state Department of Transportation, the committee recommends that an auditing program be started immediately. This program should match contract awards with purchase orders and invoices to determine if the purchase prices ultimately charged for goods or services correlate with prices in the original contract.

Secondly, there is a lack of computerization of nearly all aspects of procurement within the bureau. The bid process, development of specifications, solicitation of quotes, and contract awarding are all handled manually. This lack of automation limits the bureau's ability to take on new responsibilities in the process.

The committee believes that the bureau's role in the purchasing system should be expanded to include more of the purchasing cycle, and better integrated with the entire procurement process, thus giving it an increased ability to track contracts after being awarded. Therefore, the program review committee recommends that the lack of bureau involvement after the contract award phase should be addressed by making the bureau responsible for issuing purchase orders and invoices. However, the committee realizes that without computerization bureau staff resources would be severely strained if these functions were to begin at this time.

A third area of concern is the practice of extending contracts beyond their original terms. Contract extensions allow for goods or services bought under an existing contract to continue to be purchased for an additional specified time period. The report finds this practice to be operating without explicit statutory authority.

In addition to the bureau not having the statutory authority to extend contracts, it has not developed any regulatory controls or uniform policies in the contract extension area. Moreover, it appears as though the bureau's authority to extend contracts emanates from a single source -- standard contract language drafted by the attorney general's office. Without statutory authority, the bureau has unlimited discretion concerning contract extensions and can effectively reduce vendor competition.

Based on this concern, and the fact that the bureau includes extension language in its contracts, it can be questioned as to whether or not the Bureau of Purchases is violating the purchasing statute as it now exists. The practice and authority to extend contracts unclear and needs to be made explicit.

Below is a listing of the Legislative Program Review Committee's adopted recommendations in areas where the operation and performance of the Bureau of Purchases can be improved.

RECOMMENDATIONS

1. The Legislative Program Review and Investigations Committee recommends that the Bureau of Purchases begin a program of auditing purchasing transactions by matching contract awards with purchase orders and invoices. The audit program should involve the selection of random contracts on a regular basis to determine if the price ultimately charged for a good or service matches the contract price. This program should begin immediately and discrepancies are to be reported to the state auditors.

2. The program review committee recommends that the bureau begin to automate its competitive bidding process including the development of specifications, solicitation of quotes, selection of vendors, issuance of contracts, and placement of orders. The system should be able to issue purchase orders from contract awards and allow for the invoicing of goods or services upon receipt by agencies.

3. The Legislative Program Review and Investigations Committee recommends that the authority to award contract extensions be set out in statute and included in regulations to be drafted by the Bureau of Purchases.

4. The committee recommends that it be in statute that contract extensions must be awarded and approved by the Deputy Commissioner of the Bureau of Purchases based on standard criteria. The criteria should include: 1) a determination that rebidding a contract would cause hardship to the user-agency or state; 2) documented drastic price escalation of the commodity or service; or 3) documented unavailability of product or service.

5. The program review committee recommends that the number of extensions per contract should not exceed two. This allows an average one-year term contract to extend for three years -- an initial one-year period plus two one-year extensions.

6. The committee recommends that at least three outside vendors shall be solicited for price quotes before any contract is extended. If any vendor can meet or beat the present vendor's price or terms, or provide a higher quality commodity or service, the contract may not be extended and must be rebid.

7. The committee recommends that vendor information be recorded and filed with each contract. Such recorded information should include the name and address of the vendor, price quote, commodity or service specifications, availability of acceptable alternatives, vendor willingness to enter bid in competitive bidding process, and any other information that the bureau finds useful.

8. The Legislative Program Review and Investigations Committee recommends that the Bureau of Purchases re-evaluate its policy of having the Inspection Unit examine all deliveries made to the Central Warehouse in addition to its other duties. If the bureau concludes this is the best policy, it should seek additional inspectors to handle the increased workload. If the bureau determines its policy is not to have all deliveries inspected, it should indicate so in its manuals. Furthermore, when purchasing regulations are adopted the role of the Inspection Unit should clearly be defined.

9. The program review committee recommends that the bureau develop a policy on conducting agency inspections and that this policy be included in the forthcoming purchasing regulations. The policy should clearly state the requirements for performing inspections such as when inspections should be conducted, how often they should be done, and what guidelines should be used when inspections are made.

10. The Committee recommends that the bureau develop a direct purchase authority (DPA) form similar to those presently used by particular state agencies. This form should be used by all agencies when buying under a direct purchase authority, and the agencies would be required to maintain the forms on file. Moreover, it is recommended that the Bureau of Purchases establish a schedule to audit a random sample of DPA forms and investigate all discrepancies for possible abuse.

11. The program review committee recommends that the comptroller add to its Excessive Direct Purchase Authority report a description of the commodity purchased. Moreover, this report should contain only that information on DPAs.

12. The program review committee recommends that the commodities and services, presently purchased under the competitive bidding exception rule, be specifically defined in statute and bureau regulations, and added as one or more categories of the direct purchasing authority allowed for state agencies.

13. The committee recommends that the Central Warehouse, in conjunction with the Bureau of Purchases, conduct a needs assessment test necessary for the integration and updating of its present computer resources and system. In addition, the committee recommends that the revised system be incorporated with the new computer resources planned for the bureau.

14. The Legislative Program Review and Investigations Committee recommends that the Bureau of Purchases review its current policy regarding the application of a special delivery fee for small orders assembled for state-owned group

homes and not for privately-owned group homes. If the bureau determines this fee is necessary, it shall charge the fee to all group homes, state and private, which require extra handling to assemble their orders.

15. The committee recommends that the Bureau of Purchases require non-profit agencies doing business with the Central Warehouse to annually provide the bureau with proof that the required level of public funding is being achieved.

16. The Legislative Program Review and Investigations Committee recommends that C.S.G. Title 4a, Chapter 58, be expanded to include the donation of surplus property to charity and non-profit organizations. The statute should include provisions ensuring that the property is first offered for sale to state agencies and municipalities, then stocked in the retail store for a period of one-year, and finally offered for sale to the general public before being donated.

17. The committee recommends that a recordkeeping procedure be developed that would account for donated surplus property.

18. The program review committee recommends that the Bureau of Purchases develop a formalized training program for new and existing buyers, agency purchasing officers, bureau inspectors, Central Warehouse receiving personnel, and individual agency receiving personnel. The training program shall be developed by January 1, 1991.

19. The program review committee recommends that the Department of Administrative Services shall adopt regulations for the Bureau of Purchases by July 1, 1990.



CHAPTER I: INTRODUCTION

The Legislative Program Review and Investigations Committee authorized a study of the state's purchasing process in February 1989. The Department of Administrative Services' (DAS) Bureau of Purchases is primarily responsible for procuring all supplies, equipment, materials, and contractual services required by state agencies, and is the focus of the committee's study.

This report includes information on five major areas of the purchasing process: 1) organization and resources of the Bureau of Purchases; 2) procurement and bidding processes, 3) standards, tests, and inspection processes, 4) general services provided by the Central Warehouse and the food processing and surplus property units; and 5) electronic data processing procurement.

In conducting the audit of the state's purchasing process, the following methods have been used:

- o a review of statutes and bureau policy manuals;
- o interviews with DAS and bureau personnel, and personnel in the comptroller's office;
- o a detailed examination of a random sample of 500 contracts;
- o site visits;
- o surveys of bureau buyers and agency purchasing officers; and
- o a review of the bureau's bid processing forms.

CHAPTER II: BUREAU ORGANIZATION AND RESOURCES

In 1937, a formal purchasing operation was established in Connecticut when the Purchasing Division within the Department of Finance and Control was created. As a result of the Executive Reorganization Act in 1977, the Department of Finance and Control was abolished. The purchasing operation was organizationally relocated in the newly formed Department of Administrative Services, where it presently exists within the department's Bureau of Purchases.

Bureau Responsibilities

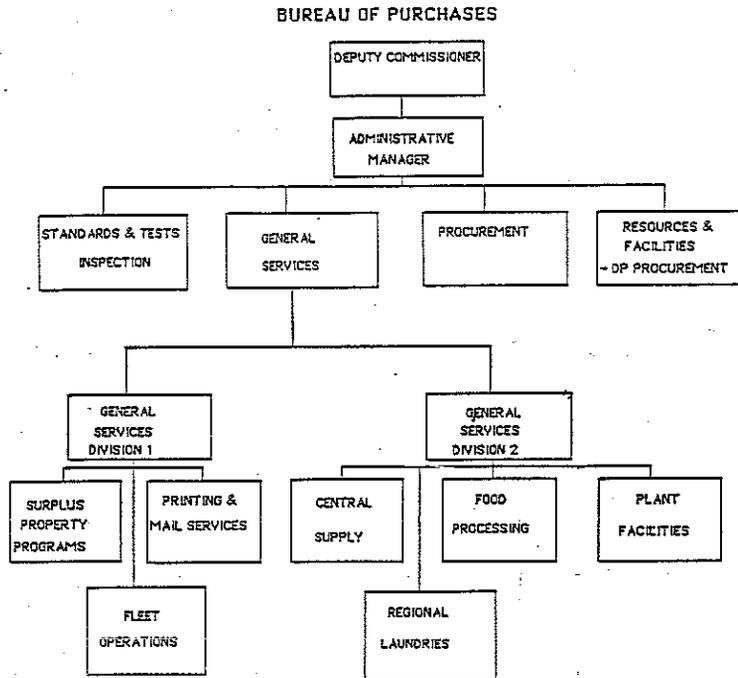
The bureau is primarily responsible for coordinating the purchase and contracting of all supplies, equipment, materials, and personal services required by any budgeted, executive state agency. It is charged with establishing standards for goods and services acquired by the state and ensuring the quality and quantity of what is bought. The bureau also has administrative functions such as operating a warehouse and the state's Surplus Property Program. Additionally, as a result of the transfer of the Resources and Facilities Planning Unit from the Bureau of Information Systems and Data Processing to the Bureau of Purchases in 1983, it is responsible for procuring all electronic data processing (EDP) equipment, software, and consultant services for state agencies.

Organization

In order to accomplish these tasks, the Bureau of Purchases is divided into four sections: Procurement; Standards, Tests, and Inspection; General Services; and Resources and Facilities Planning. The bureau's organizational structure is depicted in Figure II-1, followed by a description of each section.

Procurement Section. This section is responsible for processing all purchase requisitions submitted by agencies, preparing and processing bids and subsequent contract awards, and other matters relating to the procurement and delivery of supplies, equipment, materials, and contractual services. There are two buying groups, divided into five commodity units each, established within this section for the acquisition of such goods and services. The buying groups, separated between user commodities and industrial commodities, are supervised by two assistant procurement chiefs and staffed with 8 buyers. A Chief of Procurement oversees the entire process.

Figure II-1. Bureau of Purchases Organization.



Standards, Tests, and Inspection Section. This section is divided into four units including Standards, Tests and Inspection, Commodity Cataloging, and Energy Liaison. The section's primary function is to ensure the adequate quality of procured commodities and services contracted for by state agencies. This is accomplished by preparing and promulgating specifications, standards, and acceptable brands lists (lists containing vendors who meet state specifications for commodities or services). The section is also responsible for providing quality assurance, procurement/inventory identification support, and incorporating energy efficient specifications and life-cycle cost formulae whenever possible. The section is headed by a Chief of Standards and Tests and staffed with two inspectors and two standards engineers.

General Services Section. The General Services Section is responsible for administering: the Central Warehouse which maintains and delivers commonly-used items to state agencies;

the Central Food Processing Unit which processes and stores meat products for use by state agencies; the State Fleet Operations Office which sets and directs policies for the daily operations of state-owned vehicles and personally-owned vehicles used for state business; two regional laundries in Norwich and Middletown; the Connecticut Food Distribution Program; federal and state surplus property centers; central mail, courier, and duplication services; and central advertising billing services.

Resources and Facilities Planning Section. This section's function is to acquire all electronic data processing resources for executive branch agencies. Resources acquisition includes hardware, software, maintenance, and service bureau and data processing consultants. The section also acts in conjunction with the Bureau of Information Systems and Data Processing to provide agencies with acquisition and project management services and to assist in their efforts with automation planning and support. The staff responsible for these functions includes a Director of Resources and Planning, one State Information Systems Administrator, four State Information Systems Specialists, and three purchasing officers.

Resource Analysis

The program review committee analyzed the Bureau of Purchases' budget and personnel resources for state FY 82 through FY 88. A description of this analysis is detailed below.

Current budget. The Bureau of Purchases receives its funding from three sources -- the General Fund, federal funds, and a revolving fund. The revolving fund is a nonappropriated, internal fund perpetuated from charges to agencies using specific services offered by the bureau. For example, the bureau, which operates the state's central motor pool, charges for use of state vehicles. These funds are then used to maintain and buy new vehicles. The bureau's overhead costs are added into these charges.

Services that fall under the revolving fund are provided by the General Services Section and include the Central Warehouse, regional laundries, Fleet Operations, Surplus Property Program, Meat Processing Plant, and Central Printing. The total budget for this fund in FY 88 was \$44 million.

As noted in Table II-1, the General Fund budget for the Bureau of Purchases in FY 88 totalled \$2,799,228 -- a decrease of \$12,571 (.5 percent) when compared to the FY 87

total of \$2,811,799. Funding for personal services in FY 88 accounted for the bureau's largest expenditure amounting to \$2,115,882, or 76 percent of the total budget. Spending for "other expenses" such as payments for telephone, consulting services, office supplies, and data processing service and maintenance was \$647,962 (23 percent), and equipment expenses accounted for \$23,490 (1 percent) of the bureau's budget.

Comparing the overall FY 88 General Fund budget for the Bureau of Purchases, to that of DAS as a whole, the bureau's total funding accounts for just under five percent of the department's \$59,316,043 budget. Bureau expenditures for personal services amounted to roughly 14 percent of the total spent by DAS for personal services, while its other expenses, including equipment, was almost 12 percent of the department's budget for other expenses.

Budget trends. As shown in Table II-1, the bureau's General Fund budget grew by 78 percent between FY 82 and FY 88, from \$1,572,679 to almost \$2.8 million. However, General Fund budget amounts declined in FY 86 by 12 percent, and in FY 88 by .4 percent.

The bureau's revolving fund has risen in every year of the last seven except FY 84. Overall, the fund increased 35 percent between FYs 82-88. When combining all sources of funding (general, revolving, and federal), the bureau's budget rose more than 37 percent, from \$34,130,390 to \$46,811,122, during the years examined. More importantly, however, when budget figures are discounted for inflation, the overall increase was only 6 percent for the 7-year period compared to the unadjusted increase of 37 percent.

The committee also compared appropriation amounts to the bureau's actual expenditures for FYs 86 through 88, to determine whether funds were being over- or underspent. Analysis shows that in FY 86 and FY 88 the bureau spent almost 96 percent of its appropriations in each of the two fiscal years. However, in FY 87 the bureau overspent its funding by 4 percent.

Current staffing. The Bureau of Purchases had a total of 456 budgeted positions as of April 1989; 84 General Fund positions (73 permanent full-time, 10 part-time, and 1 temporary) and 372 revolving fund positions (313 permanent full-time, 58 part-time, and 1 temporary). The total number of full-time General Fund positions filled as of April was 67. All the part-time and temporary positions were filled. Of the total revolving fund positions filled, 283 were full-time, 54 part-time, and 1 temporary. Four revolving fund positions were on hold due to people on leave. There were also 36 vacancies as of April.

LE II-1. DAS BUREAU OF PURCHASES BUDGET AND STAFF RESOURCES: FY 82-FY 88

GET FUNDING	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88	% CHANGE	FY 87	% CHANGE	FY 88	% CHANGE	CHG FY82-88
AL	\$34,130,390	\$35,545,852	\$35,021,538	\$38,622,497	\$40,174,051	\$43,148,139	\$46,811,122	10%	\$43,148,139	4%	\$46,811,122	7%	37%
AL BUDGET													
LATED	\$34,130,390	\$33,950,193	\$31,866,732	\$33,614,010	\$33,988,199	\$35,079,788	\$36,008,555	-1%	\$35,079,788	1%	\$36,008,555	3%	6%
2=100)													
FF													
ERAL FUND	73	77	77	81	81	80	82	5%	80	0%	82	-1%	12%
OLVING FUND	297	292	294	298	323	324	333	-2%	324	8%	333	0%	12%
AL	370	369	371	379	404	404	415	0%	404	7%	415	0%	12%

SOURCE: LPR&IC staff analysis.

The General Services Section accounts for the largest number of staff (397) among the bureau's four major sections. However, the vast majority of these positions are supported by the revolving fund. The Standards, Tests, and Inspections Section has the fewest number of staff (8) of all four sections.

Staffing trends. Table II-1 shows that the bureau's General Fund, permanent positions have increased only slightly since FY 82. In fact, the largest increase in staff came in fiscal years 83 and 85, when the number rose by 4 (5 percent) each year. After fiscal year 1985, the number of positions remained relatively constant, fluctuating up or down by only one or two positions.

The number of full-time, permanent revolving fund positions has not changed drastically since FY 82, as illustrated by Table II-1. A decrease of 5 positions (2 percent) occurred in fiscal year 1983. Since then, the number of staff increased to 333, with the largest increase occurring in FY 86.

CHAPTER III: PROCUREMENT PROCESS

The fundamental principles of a public bidding and contracting process are competition, impartiality, conservation of funds, and openness. The Council of State Governments, in State and Local Government Purchasing, states, "... public business is to be offered for competition; bidders are to be treated alike and contracts administered alike, without favoritism; economy and value are basic aims; and documents used and actions taken are public information". With this in mind, the Legislative Program Review and Investigations Committee authorized a review of the state's procurement process. The responsibility for procuring commodities and services is that of the Bureau of Purchases' Procurement Section.

The Procurement Section is one of the four major functional groups within the Department of Administrative Services' Bureau of Purchases. It is responsible for the acquisition of commodities and contracting of services through a competitive bidding process. The section also buys, through the competitive bidding process, all commodities stocked in the bureau's Central Warehouse for distribution to various state agencies.

The competitive bidding process is governed by statute, policy and procedure manuals for bureau employees and private-sector vendors, and court decisions. The process encompasses requisitioning, drafting of specifications, advertising, preparation of bids and subsequent contract awards, details relating to procurement and delivery of commodities or services according to established standards.

Annually, the Procurement Section awards approximately 3,000 contracts for a total dollar value of \$250 million. To date, FY 88 has resulted in the highest number of bids awarded and dollars spent at 2,993 bids totalling \$257,543,035 in value. Projections for FY 89 were to equal or surpass the statistics of the preceding year this did not occur, however.

The Process

The procurement of commodities or services can generally be made through the competitive bidding process or direct purchases by agencies. The bureau has guidelines and policies set forth in a purchasing manual regarding competitive bidding and direct purchasing. Provisions have also been

made for purchasing commodities or services not falling within these two categories; these purchases are called exceptions.

Direct purchase authorities. Direct purchase authorities (DPA) permit state agencies to purchase within certain price limits specified commodities, equipment, and contractual services directly from vendors without prior approval of the deputy commissioner of purchasing. There are 13 DPAs for use by state agencies. A more detailed explanation of the DPAs available is given in Table III-1.

By using direct purchase authorities, state agencies do not have to use the competitive bidding process. However, purchases must be based on competitive prices and, where competition is possible, agencies must obtain price quotes. If the commodity or service precludes competition, an explanation is provided on the agency's purchase order.

The Bureau of Purchases and the comptroller's office review purchase orders for evidence of competition. Nonconformance or abuse of a direct purchasing authority by state agencies can result in the withdrawal of that privilege. Relinquishment of an agency's DPA, in most cases, is for 90 days. The DPA is reinstated when the commissioner of the penalized agency notifies the DAS commissioner that the violation has been corrected.

Competitive bidding process. All other purchases are made through a competitive bidding process. This process begins when an agency submits a purchase requisition to the bureau. The Procurement Section reviews the requisition, drafts specifications, prepares the bid, receives sealed bids from vendors, holds a public bid opening, and ultimately awards the contract. The vendor is then responsible for delivering the product or service. Once this is done, the comptroller's office issues payment to the vendor. A flowchart illustrating the bid process is shown in Figure III-1.

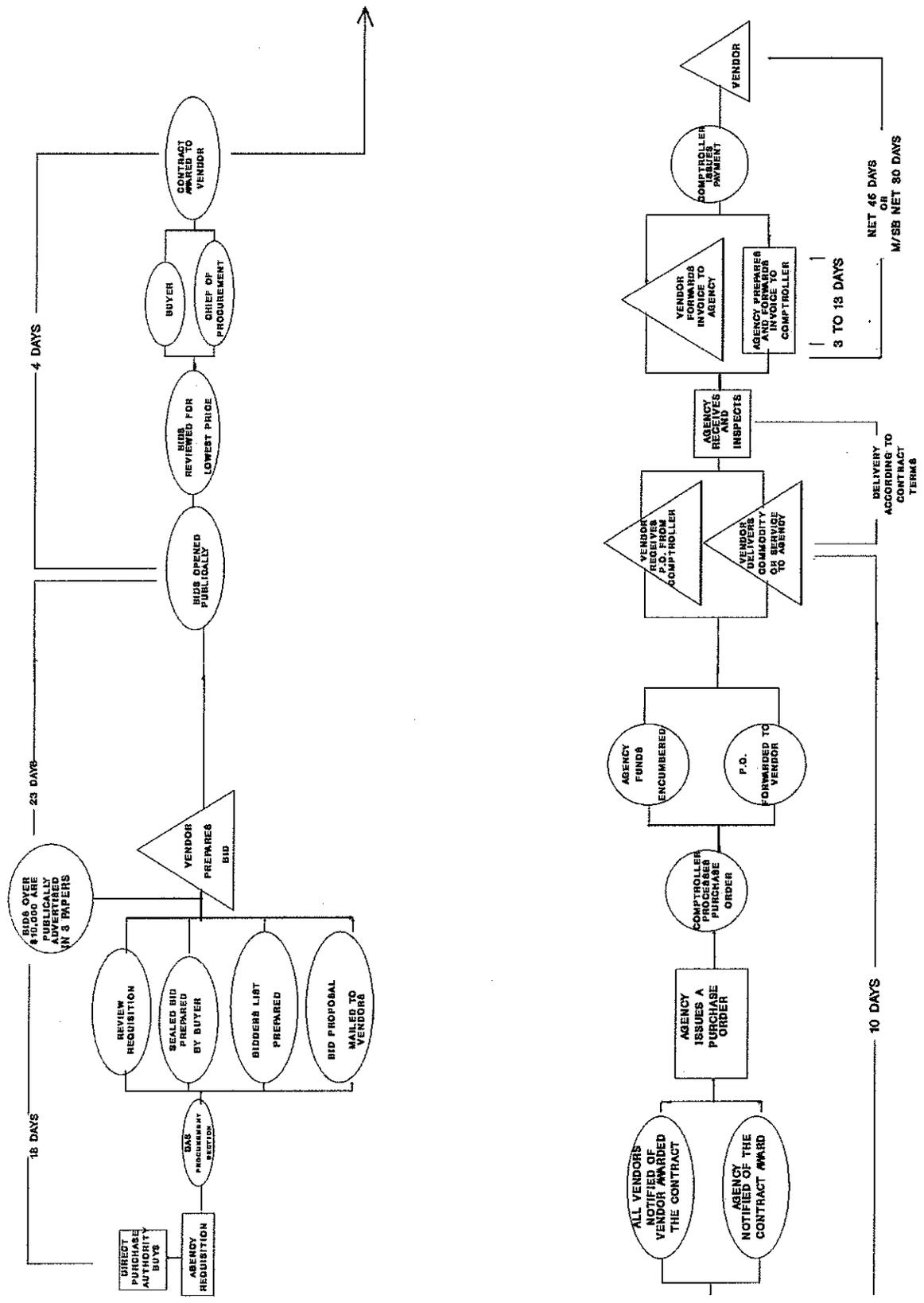
The flowchart also gives the times during which certain steps in the procurement process are completed. The first three time periods, indicated at the top of the chart, are based on median time frames obtained from a sample of contracts reviewed for fiscal years 86-89 (analysis of the sample is discussed later in the report). The remaining four time periods, reflected at the bottom of the chart, are estimations provided in the bureau's purchasing and vendor manuals. These times are the expected number of days in which agencies involved in the process will complete certain steps.

Table III-1. Direct Purchase Authorities for State Agencies

<u>ID Number</u>	<u>Price Limit</u>	<u>Product/Service</u>
DPA #1-G	\$1-600	Occasional or nonrecurring commodity or service
DPA #2	none	Transaction between state agencies
DPA #3-F	\$1-600	Purchase from any governmental agency
DPA #5-C	none	Eyeglasses and dentures
DPA #6-F	\$1-10,000	Emergency repair parts for equipment and machines
DPA #7-F	\$1-10,000	Emergency rental repair for maintenance equipment and statewide property
DPA #8-F	\$1-10,000	Hearing aids and prosthetic and orthopedic appliances
DPA #9-E	\$1-10,000	Purchases for authorized agencies to operate bookstores and canteens
DPA #10-F	\$1-10,000	Publications from publisher or exclusive distributor
DPA #11-F	\$1-10,000	Purchase or rental of media/video from processor, producer, or exclusive distributor
DPA #12-B	none	Prescription drugs and medicines
DPA #13-A	none	Various services secured by subscription or contract, written or implied, from sole providers of service
DPA # 14	\$1-7,500	Contracted facilities for conference sites

Source: LPR&IC Staff Analysis of Bureau of Purchases's Procurement Manual.

Figure III-I. Procurement Process Flowchart.



SOURCE: LPR&IC

Requisitioning. The bid process begins once a state agency identifies a need for a commodity or service. If the purchase is not covered under a DPA or an exception, the agency forwards a purchase requisition to the Procurement Section. All agencies have employees designated as purchasing officers or business managers who work with the bureau's buyers on a regular basis. The larger agencies have purchasing units within their organization.

After the Procurement Section receives a purchase requisition, it is forwarded to the buyer responsible for the requested commodity or service where it is reviewed for content, completeness, and conformity to any previous contracts. The requisition is either approved for bid preparation or disapproved.

If disapproved, the purchase requisition is returned to the agency for further review. A requisition can be disapproved for a variety of reasons, including:

- o a poor description of the item;
- o requisition is not understandable;
- o agency requests a specification item or brand name that is not justifiable;
- o the requested item is previously covered under an existing contract;
- o delivery specifications are unreasonable; or
- o there is missing information on the purchase requisition.

Bid proposal and specifications. If approved, the requisition is drafted into bid proposal form with the necessary specifications. Specifications are details and requirements pertaining to a commodity that are contained in the bid proposal and, subsequently, in the contract.

Specifications, as discussed later in the Standards, Tests, and Inspection Section, are based on a product's market value and availability, vendor break-downs of a product, professional manuals and references containing state, federal, and industry standards, and specifications and item descriptions.

Specifications can either be drafted by the standards section or a buyer. Agencies may also submit suggested specifications with a purchase requisition. In this

instance, the agency's specifications are reviewed for restriction of competition and over-detail that could culminate in only certain brand-name products being procured.

Agencies requesting technical or specialized commodities, such as the departments of transportation or public safety, can draft specifications if they have staffing with the proper technical expertise. The agency's specifications are again subject to review by the Procurement Section. If an agency does not provide specifications for certain items, the procurement or standards sections will draft specifications and submit them to the agency for review.

No substitution clause. Specifications are rarely drafted to include a particular brand name or to eliminate all but one type of vendor. However, there are some bid proposals that contract for a certain product; these are termed "no substitution" proposals and contracts. A "no substitution" bid proposal is usually for additional or replacement products of a commodity procured through an existing contract, for example, additional wall panels for an existing office partition system.

An agency can submit "no substitution" specifications for a requested commodity. Program review staff interviewed Procurement Section buyers and were informed that, in most cases, the "no substitution" clause is denied or revised by the buyer. This was also substantiated by the contracts analyzed by committee staff, in that, out of 461 contracts reviewed, only 9 (2 percent) were considered no substitutions.

Solicitation of bid quotes. The next step in the process, as noted in Figure III-1, involves the solicitation of bid quotes from vendors. Once a bid proposal and specifications are prepared, bid quotes are solicited from vendors. Procedures for soliciting price quotes from vendors differ based on three types of bids defined by specified price ranges. These bid types include oral bids, open-market bids and advertised bids, as shown in Table III-2.

An oral bid is used for purchases under \$1,500, or when the need for a commodity or service is critical. Oral quotes are solicited from at least three vendors. In this instance, the requesting agency can also solicit three oral quotes and forward them along with the original purchase requisition.

A second type of bid, open-market bids, is used for obtaining commodities with a value between \$1,500 and \$10,000 on the open market. A list of vendors to receive bid proposals is prepared by the Procurement Section, and the proposals are subsequently sent to these vendors. Bids are required to be sealed and returned on or before a specified date for a public opening.

Table III-2. Solicitation of Quotes Based on Bid Type.

Bid Type	Price Limit	Bidding Requirement	Award Process
Oral Bid	Under \$1,500 or emergency purchase	Oral quotes from 3+ vendors solicited by vendor or agency	Awarded based On oral quotes
Open-Market Bid	\$1,500-\$10,000	Prepared bid proposal mailed to selected vendors	Sealed bid quotes opened publicly and awarded after review
Advertised Bid	\$10,000+	Bid advertised in 3 state newspapers	Sealed bid quotes opened publicly and awarded after review

Source: LPR&IC Staff Analysis.

Thirdly, a requisition in value over \$10,000 follows the advertised bid process. A vendor list is always prepared as a supplement to the newspaper advertisements in the Hartford Courant and two other state newspapers. A detailed specification for the commodity, an ABL listing, a proposed delivery schedule, and a contract proposal are drafted and distributed to interested vendors.

Similar to open-market bids, advertised bid proposals are returned to the Procurement Section, on or before a specified date, as sealed bids to be opened publicly.

Contract award process. The next step in the system flowchart is the contract award process. Once opened and recorded, bids are reviewed to ensure that they adhere to the necessary contract qualifications and specifications. A bid can be rejected in whole or in part if it has been:

- o substantially altered or fails to meet contract specifications, terms, or conditions;

- o submitted with unauthorized alterations or erasures;
- o prepared in pencil or unsigned by a vendor;
- o received after the time and date specified for opening;
- o submitted without descriptive or technical information, specifications, or samples as required in the bid proposal;
- o submitted without providing a required bid surety;
- o received from a vendor removed or suspended from bidders' list; or
- o otherwise determined by the deputy commissioner as non-responsive, meaning the bid quote does not relate to the commodity, service, or specification contained in the proposal.

A price comparison is done among all qualified bids. The lowest, qualified bidder is determined and a recommendation for contract award is made by the buyer. However, a vendor who meets the specifications may not necessarily be the lowest-priced bidder, but still receive the contract award. The award recommendation is based on price, date and terms of delivery, and ability, capacity, and skill of a bidder. A tie between two or more vendors is decided by recommending the contract award to the lowest-priced Connecticut vendor, or on the cash discounts offered by vendors.

Bids for a commodity with detailed and technical specifications can also be forwarded to the requesting agency for review if that agency has the necessary technical staff. The agency submits its recommendations in writing to the buyer.

A contract can be awarded to a vendor whose product does not meet the specifications or is not listed on the acceptable brands list. However, this is done only on occasions when the chosen vendor is the only one to enter a bid on a necessary item. For example, a vendor's fruit products are not stamped with the specified inspection grade listed in the bid proposal, but since he entered the only bid, and the fruit is required by state, he will get the award.

The Chief of Procurement reviews all recommended contract awards. He determines if the lowest, qualified bidders are recommended for contract awards, and that other bidders were disqualified based on clear reasons. If he

disapproves, the recommendation or disqualification in question is re-evaluated.

The approved award recommendation is prepared in contract form. After preparing the contract, vendors not included in the award, and the agency requisitioning the commodity or service, are notified of the award.

A vendor awarded a contract can refuse to accept the award within ten days from the date of issuance. The vendor must notify the Bureau of Purchases in writing within that time period. If the vendor fails to follow this procedure, he is then obligated to fulfill the contract in accordance with all listed specifications, terms, and conditions.

The awarding of a contract basically ends the bureau's involvement in the process, which continues with the delivery of goods and payment. The bureau will again become involved if there are problems with delivery, the actual commodities, or service by notifying the vendor. However, this is mostly the responsibility of the Standards, Tests, and Inspection Section.

Role of the Buyer

The Procurement Section is divided into two buying groups: industrial commodities and user commodities. Each group is comprised of five commodity-procurement units, and one buyer is assigned to each of the 10 units. The industrial commodity group contains five units responsible for procuring:

- o electric tools and hardware;
- o paints;
- o metals;
- o janitorial equipment;
- o machinery;
- o medical equipment and supplies;
- o live animals and agricultural equipment; and
- o related contractual services and leases.

The user commodity group also contains five units, however, they are responsible for procuring:

- o food;
- o athletic, music, and drafting equipment;

- o office machines, supplies, and paper;
- o furniture;
- o communication equipment;
- o clothing; and
- o cosmetics.

Assigning one buyer to each procurement unit enables the buyer to develop knowledge and expertise regarding certain commodities. With that knowledge and expertise, the buyer should be able to evaluate market conditions, develop specifications and item descriptions, and cultivate competitive groups of vendors. For example, each buyer maintains a file of vendors, called a bidders list, who supply commodities bought by that buyer. The buyer is responsible for maintaining the status of each vendor, such as whether that vendor is suspended, disqualified, active, or inactive.

Expertise in a certain commodity area also enables a buyer to draft specifications. Buyers draft specifications for those products bought on a one-time basis for one agency and for those products not listed on the acceptable brands list (ABL) compiled by the standards section. The buyer drafts specifications based on expertise developed through experience in the market, vendor break-down of the product, standards section references, and professional manuals and reference books that contain state, federal, and industry standards, specifications, and item descriptions. Buyers also assists agencies in drafting item specifications.

In the procurement process, a buyer is the key decision-maker and is closely involved in the following steps:

- o reviewing and approving purchase requisition for content, completeness, and conformity to any previous contracts;
- o preparing bid proposals;
- o assuring that certain legislative and legal guidelines with respect to such issues as minority-owned and small business contracts and recycling policies are followed;
- o creating a bidders list, soliciting oral bids, or preparing an advertisement for a bid;
- o compiling all bids and information for a public bid opening;

- o reviewing bid quotes and contract specifications and determining the lowest, qualified bidder; and
- o making award recommendations, preparing contracts, and making all necessary notifications.

As previously stated, the awarding of a contract to a vendor is essentially the end of the bureau's involvement in the procurement cycle. However, up until this point, buyers have the discretion and responsibility for the procurement process from requisition to award. Each of the two commodity-procurement units is overseen by an Assistant Chief of Procurement; the Chief of Procurement directs the whole section.

Buyers may become involved in other parts of the process, in that they may be contacted when problems arise with delivery, status of commodity, or performance of service. However, the Inspection Unit within the standards section is responsible for investigating complaints.

Final Steps of Procurement Process

Delivery. To complete the procurement process, the next step involves the requesting agency to submit a purchase order to the comptroller's office, which encumbers the necessary agency funds and forwards the order to the vendor. Once a purchase order is received, the vendor is responsible for delivery of the commodity or providing the service to the agency. After receipt and inspection of a commodity or satisfaction with a service, the agency submits an invoice for payment to the comptroller. As stated previously, if there is a problem after a commodity or service is received and inspected, the agency can file a written complaint with the Inspection Unit.

Comptroller's involvement. If there is no problem with the commodity or service the agency accepts an invoice from the vendor and forwards it to the comptroller's office. After processing, the comptroller sends payment to the vendor according to a payment schedule outlined in the contract. The standard payment schedule for contracts is a maximum of 45 days from when the comptroller receives an agency's invoice, unless otherwise indicated in the contract. Minority and small business contracts have a 30-day maximum payment schedule.

If the state fails to issue payment in accordance with the specified terms, a vendor can charge interest at a rate of one percent per month on any unpaid balance. All interest due is paid from the requesting agency's funds.

Penalties for failure to perform. Contracts between the Bureau of Purchases and a vendor can be terminated for several reasons, and the vendor may be held responsible for damages. The reasons for termination are as follow:

- o failure to make timely delivery;
- o failure to make timely replacement of unacceptable or nonconforming goods after notice of rejection;
- o failure to post required performance surety;
- o poor performance of contractual service;
- o substantial misrepresentation of vendor's ability, or of goods offered;
- o fraud or collusion with other bidders; or
- o any breach or unlawful act of the vendor which seriously impairs vendor's ability to perform contractual obligations.

If the contract is terminated, the vendor may be responsible for damages including additional costs to obtain the commodity or service elsewhere, administrative costs of rebidding the contract, expenses incurred from delay in receipt of delivery, and any other damages which result from the vendor's contract breach.

Exceptions to Bidding Process

Exceptions to the competitive bidding process are made for certain contractual services such as advertising, dues and subscriptions, fees, licenses, freight cartage and express, transportation, and other operating expenses that are not covered by an existing contract. The procedure for making a purchase under the exception policy, and the type of commodities and services covered, is vague.

Purchasing under an exception is similar to a direct purchase authority, in that, an agency must attempt to obtain at least three competitive price quotes for the services. The quotes, or lack thereof, are noted on the purchase order.

Exception purchase orders are also subject to review by the Bureau of Purchases, comptroller's office, and state auditors.

Extensions

Extensions to existing contracts are awarded through the Procurement Section. A contract extension allows for items procured under an existing contract to continue to be purchased for another specified time period. Extensions are usually given for term contracts and, in most cases, there is a provision for extension in the original contract.

An extension to an existing contract can be requested by the agency, buyer, or vendor. The agency, in most instances, requests the extension, however a buyer will request the extension in the event that market conditions worsen or prices escalate. A vendor will request an extension by offering to continue to provide the product for a certain price.

Once an extension is requested, the vendor is contacted to confirm the price and conditions pertaining to the item(s) covered under the contract. Market conditions and values are re-examined for any change; if market prices have dropped, no extension is awarded and the contract is re-bid. Several other vendors may be contacted and given the opportunity to submit lower or matching bids. If there appears to be competition from other vendors, an extension is denied. If there is no competition, an extension is awarded for a specified time period.

Procurement Process Analysis

Process. To examine the performance of the procurement process, data were compiled from monthly reports prepared by the Chief of Procurement and from a random sample of bid contracts between FYs 86 through 89. The monthly reports, covering fiscal years 87-89, provided a breakdown of dollars spent, contracts awarded and extended, and bids issued and opened. The reports also contained a breakdown of workload per buyer and a listing contract awards and extensions with large dollar values.

A total of 500 contracts were reviewed, however, due to cancellation of bids and bids submitted with no quotes, the final sample totalled 461. The sample represented 6 percent of the total number of contracts awarded for the three fiscal years.

The information collected from the contracts included bid number; commodity group number; agency number; dates of bid issuance; bid opening, award processed, and requisition; number of bid invitations issued and received; total dollar amounts; number of vendors per contract; vendor identification numbers; price rank of vendor awarded contract; term contract requirement period; and bid type.

Workload Overview

Table III-3 shows figures for bids issued and opened, contracts awarded and extended, and dollar amounts for contracts awarded and extended for the period of FYs 86-89.

Table III-3. Procurement Section Monthly Statistics: FYs 1986-89.

FY	Issued	Opened	Awards	Award Amount	Extended	Extended Amount	Combined Amount
87	2,892	2,796	2,592	\$143,181,486	1,414	\$42,537,146	\$185,718,630
88	3,224	3,169	2,993	\$257,543,035	697	\$31,077,435	\$288,620,470
89	2,524	2,465	2,366	\$199,469,856	678	\$11,826,673	\$211,296,529
	8,640	8,430	7,951	\$600,194,377	2,789	\$86,101,254	\$686,295,631

Source: LPR&IC Staff Analysis of Monthly Procurement Reports.

As the table illustrates, FY 88 resulted in the highest numbers in terms of contracts issued, opened, and awarded, and dollars spent. Each of the categories -- issued, opened, and awarded -- represent 40 percent of the totals. The contract award dollar value for FY 88 totalled \$257,543,035.

During FY 88, only the number of extended contracts, and the correlating dollar amount, were not the highs for the three-year period. The dollar value of extended contracts totalled \$31,077,435 -- the high was \$42,537,146 in FY 87.

Fiscal year 88 had the largest combined dollar amount, in fact, there was a \$102,901,840 increase from the previous fiscal year.

As stated earlier in the procurement process section, contracts can be extended. In fact, 36 percent of all contracts awarded during FYs 87-89 were extended.

Sample Analysis

The program review staff reviewed the sample data collected from 461 contracts to determine, on the average, certain aspects of the bid process and if there were any significant differences among the contracts. The analysis covers the following areas: time periods; commodities procured; frequencies of bids issued and received; number of contracts; and types of contracts.

Time lengths of process. The bidding process is begun when an agency submits a purchase requisition. For analysis purposes, the date of the requisition was considered the beginning of the process, while the award-processed date was considered the end of the bureau's involvement in the purchasing cycle.

Contract analysis showed that the median number of days it took for the Procurement Section to complete the bidding process was 49; meaning half of the contracts were completed in more than 49 days and half completed in less than 49 days. Contract processing times ranged from a long of 403 days, to 4 days as the shortest.

The procurement process flowchart, Figure III-1, and Table III-4 reflect the time periods in which certain stages the process are completed. The time lengths are sample medians. Figure III-1 shows that it takes approximately 18 days from agency requisition to bid proposal distribution to vendors; 23 days from that point until the bids are publicly opened; and 4 days to review and award the contract.

Also shown in Figure III-1 are the estimated times it takes to complete the process from award date to vendor payment. These times were found in the Bureau of Purchases manuals, and are the bureau's estimation of how long certain stages of the process should take.

The period from contract award to issuing the purchase order to a vendor takes approximately 10 days. This stage includes the issuance of a purchase order by the agency and processing of that purchase order by the comptroller.

In the next stage, when the vendor receives a purchase order to delivery of commodities or service, times vary because different delivery times can occur in every contract.

The last two stages of the process are the vendor-invoice-to-agency and the invoice-to-comptroller's office stages. These take from 3 to 13 days, with the comptroller then issuing payment to the vendor. Payment schedules are

provided in each contract, but usually follow the guidelines of net 45 days, or net 30 days for minority-owned and small businesses.

Table III-4. Time Lengths to Complete Procurement Process.

<u>Stage</u>	<u>Number of Days</u>
Agency requisition to providing vendor with bid proposal	18
Providing vendor with bid proposal to public bid opening	23
Public bid opening to contract award	4
Contract award to issuing vendor purchase order	10*
Issuing purchase order to delivery of commodity/service	According to contract schedule
Delivery to submitting invoice to comptroller	3-13*
Submitting invoice to final payment	Net 45 or net 30

* Estimated Times Made by Bureau of Purchases.

Source: LPR&IC Staff Analysis.

Commodity groups. The random sample of contracts reviewed included a wide variety of commodities and services, from food to armored car services, and including clothing, machinery, fuels, cosmetics, and furniture. The sample showed that 182 different items and services were purchased, with some purchased more than once.

For analysis purposes, the commodities and services were arranged into broader categories. The groupings basically followed the Procurement Section's commodity-procurement units, however the alternative categories was more specific

in reflecting the general nature of the items. The category titles are as follow:

- o agricultural equipment;
- o educational equipment;
- o tools and hardware;
- o janitorial supplies;
- o construction materials;
- o clothing;
- o police and fire equipment;
- o lab and medical supplies;
- o food;
- o appliances and furniture;
- o machinery;
- o vehicles;
- o office equipment;
- o printing; and
- o contractual services.

Table III-5 reflects the number of contracts, total dollar amount, and the percentages of the totals for each group based on the sample contracts covering FYs 87-89.

As shown in the table, contractual services comprise the majority in terms of number of contracts, at 17 percent, and dollar value, totalling \$32,832,439 -- 48 percent of all monies spent. Contractual service contracts include repairs and maintenance for all commodities, laundry and dry cleaning services, rubbish and refuse removal, transportation, lottery games and services, cafeteria operations, hazardous waste removal, security guard and courier services, and miscellaneous services.

The purchase of vehicles was one of the largest commodity groups in terms of dollars spent, at \$13,935,202, however, only 24 contracts were issued. Vehicle purchases accounted for the second largest dollar amount, but only a relatively small number of contracts. This is due to the fact that vehicles are usually purchased in bulk quantities resulting in one contract having a large dollar value.

Table III-5. Analysis of Contracts by Commodity Group Based on Sample Contracts: FYs 1986-89.

Group	Freq.	Percent	\$ Amount	Percent
Contractual Services	78	17.0%	\$32,832,439	48.43%
Vehicles	24	5.2	13,935,202	20.56
Construction Materials	36	7.8	6,659,294	9.82
Food	50	10.9	3,614,805	5.33
Office Equipment	10	2.2	3,188,309	4.70
Lab/Medical Equipment	51	11.1	2,580,633	3.81
Clothing	25	5.4	809,994	1.19
Tools/Hardware	21	4.6	742,338	1.10
Appliances & Furniture	42	9.1	699,092	1.03
Police/Fire Equipment	26	5.7	623,013	.92
Machinery	12	2.6	532,005	.78
Printing	47	10.2	514,322	.76
Janitorial Supplies	5	1.1	473,145	.70
Educational Equipment	10	2.2	388,174	.57
Agricultural Equipment	22	4.8	195,946	.29%
TOTALS	460		\$67,788,711	

N=461

Source: LPR&IC Staff Analysis.

Most of the remaining categories followed a similar pattern of having differences between the number of contracts and the dollar value. Again, this can be attributed to a single contract being valued at a large dollar amount, or many contracts valued at small amounts.

Janitorial supplies had the least number of contracts, only one percent. Agricultural equipment purchases had the lowest dollar value at \$195,946, or less than one-half-of-one percent of the total.

Bids issued and received. As stated in the Procurement Section narrative, the bid process involves the solicitation of price quotes from vendors. The more vendors participating in a bid the greater the competition, and the more competition the better the opportunity to obtain a fair and moderate price for a commodity.

Analysis indicates that of all the contracts reviewed, 50 percent had 9 or more vendors solicited for price quotes, and 75 percent had at least 5 or more solicited vendors.

Once solicited by the bureau, vendors respond with written price quotes called bids. These bids are used to determine the lowest, qualified bidder to receive the contract award. Of all the contracts reviewed, 50 percent had bids received from 3 or more different vendors, and 75 percent had bids received from at least 2 different vendors. Only 10 percent of the sample received bids from a single vendor.

Although it's the bureau policy of the bureau to award contracts to the lowest, qualified bidder, there are instances where this policy is not followed. A higher-priced vendor is awarded the contract usually when it is in the best interests of the agency receiving the commodity or service, or the bureau. When a higher-priced vendor does get an award, the buyer indicates in writing on the bid proposal the reasons for the award.

Table III-6 shows those contracts from the sample where the lowest bidder was not awarded a contract, and the reasoning behind the award going to a higher-priced vendor. Ten percent of the contracts sampled were awarded to a higher-priced vendor.

As also illustrated by the table, 46 percent of the contracts awarded to a higher-priced vendor were done so because the lowest-priced vendor submitted a quote for a commodity that was found not in accordance with specifications. All such specifications are contained in the bid proposal and the vendor's commodity or service must

conform to these specifications. Nonconformance may disqualify a vendor from receiving a contract award. In these cases, the higher-priced vendor awarded the contract may actually be the lowest-priced, qualified bidder. Fifteen percent of the contracts awarded to a higher-priced vendor were done so without having a written reason.

Table III-6. Contracts Not Awarded to Lowest Bidder; Reasons For Award to Higher Priced Vendor: FYs 1986-89.

Reason for Award to Higher- Priced Vendor	Frequency	Percent
Commodity/service not according to contract specifications	22	45.8
Bid quote not fully prepared when submitted for opening	9	18.7
Vendor, commodity or service not acceptable to requisitioning agency	5	10.4
Vendor withdrew bid after contract awarded	2	4.1
Commodity or service not compatible with an existing contract	2	4.1
Vendor failed to perform on a previous contract	1	2.0
Total vs. partial contract award	1	2.0
Commodity not on ABL	1	2.0
Reason for award not provided in writing	7	14.5
Total	<u>48</u>	

N= 461

Source: LPR&IC Analysis of Sample Contracts.

Price quotes from the lowest bidder that were not fully prepared were also disqualified and totalled 19 percent of the contracts. All quotes must be completed, and the price and quantity computations finalized, or the bid is considered incomplete.

Number of contracts. Table III-7 represents state agencies with the most number of contracts in the sample during the three-year period analyzed; there were 13 agencies in this category. Agencies with 15 or more contracts represent 81 percent of the contracts sampled.

Table III-7. Number of Contracts Per Agency: FYs 86-89.

<u>Agency Name</u>	<u>Freq.</u>	<u>Percent</u>
Administrative Services	51	11.1
Transportation	48	10.5
Various State Agencies	41	8.9
University of Connecticut	36	7.8
Connecticut state universities	34	7.4
Public Works	29	6.3
Regents of community colleges	24	5.2
Conn. Health Center	22	4.8
Environmental Protection	21	4.6
Corrections	20	4.4
Mental Retardation	17	3.7
Mental Health	15	3.3
Public Safety	15	3.3
Total	<u>373</u>	<u>81.3</u>

N= 461

Source: LPR&IC Staff Analysis of Bid Contracts.

As shown in Table III-7, 13 agencies accounted for almost 82 percent of the contract sampled. For clarification, the category "various state agencies", which accounted for 9 percent of the contracts, represents contracts for commodities requested over a period of time by more than one agency, but are not stocked in the Central Warehouse.

The table also shows that the Department of Administrative Services was responsible for the most number of contracts -- 51 (11 percent). This is due, in part, to the department's responsibility of purchasing commodities to stock the Central Warehouse. Although these commodities are eventually requisitioned and purchased by other agencies, the contracts are nonetheless bid in bulk amounts by the department.

Type of contracts. Contracts were categorized as either one-time contracts, term contracts, or no-substitution contracts. A one-time contract allows for a single purchase of a commodity or service; each additional purchase of the commodity or service must be re-bid.

A term-contract specifies purchases of a commodity or service on several occasions during a limited time period. A term-contract can be extended pursuant to certain guidelines, which are discussed in the contract extension section of this report.

A no-substitution contract refers to the specifications of the commodity being purchased. The bid specifies a certain commodity, which, for reasons approved by the Procurement Section, must be a named brand, manufacturer, or item number. This type of contract is limited due to its nature of restricting competition among vendors.

Between FY 86 and FY 89, one-time and term contracts constituted 58 percent and 40 percent of all contracts respectively. There was a minimal amount of no-substitution contracts (2 percent), which confirmed the bureau's policy of limiting the number of this type of contract.

CHAPTER IV: STANDARDS, TESTS, AND INSPECTION

One of the major functional responsibilities of the Bureau of Purchases is to ensure that all standards and specifications for commodities and services bought by state agencies are adequate in terms of quality and quantity. In order to accomplish this, the Standards, Tests, and Inspection Section is charged with the responsibility of preparing and adopting specifications, standards, and acceptable brands lists (ABL). This section also has a role in providing quality assurance for products and services purchased by the state, as well as, reducing commodity duplication and incorporating energy efficient specifications as mandated by the state's energy plan.

The section is divided into four units: Standards; Tests and Inspection; Commodity Cataloging; and Energy Liaison. The program review committee was informed that due to low staffing, the section's focus is primarily concentrated on the Standards Unit. However, the committee was told that an effort to fulfill other obligations is made within the section's constraints of available resources.

Standards Unit

The setting of commodity standards is the responsibility of the Standards Unit. The unit researches, develops, and implements specifications and classifications for commodities and services, ABLs, and approval of special purchases. The unit works in cooperation with advisory committees and is under the purview of the Standardization Committee.

Standardization Committee

The Standardization Committee oversees work of the advisory committees by approving all specifications and additions or deletions to acceptable brands lists. ABLs are approved listings of vendors that state agencies may do business with, and of commodities that may be purchased. The Standardization Committee also reviews and approves or disapproves special and emergency purchases.

During interviews, the Bureau of Purchases stated that committee meetings are held approximately every six months, and that it is considering requiring it to meet at least quarterly. The work schedule of the committee is evaluated and meetings set accordingly. If it is deemed that there is not enough work for the committee to review at the present time, the meeting is postponed.

The Standardization Committee is comprised of the DAS commissioner, purchases bureau deputy commissioner, standards section chief, and the commissioners and heads of various state agencies. The committee must have a quorum vote of its members to finalize business; votes can be taken by mail or telephone.

Advisory Committees

To perform its functions, the Standards Unit relies on the advice, assistance, and cooperation of advisory committees. There are 28 advisory committees presently active; they are the Advisory Committees on Standards for:

- o Audio Video Equipment and Supplies;
- o Data Processing Media, Supplies and Accessories;
- o Dental Supplies and Equipment;
- o Dishwashing Supplies;
- o Dormitory Furniture;
- o Drugs and Pharmaceuticals;
- o Electrical Supplies and Equipment;
- o Feed and Forage;
- o Fertilizers, Seeds, and Agricultural Chemicals;
- o Fire fighting Equipment and Supplies;
- o Fireroom Compounds;
- o Food;
- o Food Preparation and Serving Equipment;
- o Forms;
- o Hand Tools;
- o Hospital, Medical and Surgical Supplies;
- o Industrial Supplies and Equipment;
- o Information Resources;
- o Library Detection Systems;
- o Laundry Supplies and Equipment;

- o Library Furniture;
- o Office Supplies and Equipment;
- o Paint and Related Products;
- o Radio Equipment;
- o Textiles and Clothing;
- o Phototypesetting Equipment (special ad hoc committee);
- o Publications (special committee); and
- o School Furniture (special committee).

Major function. The advisory committees prepare recommendations for proposed specifications and ABLs for goods and services in accordance with policies and procedures of the Standardization Committee. Recommendations should encourage competition within the industry and promote the most reasonable standardization of commodities and services. The advisory committees also recommend the initiation or cancellation of amendments and revisions to specifications and brands lists.

Advisory committees formulate an ABL by pre-qualifying acceptable product brands through inspection, laboratory analysis, test data, performance records, and research. The testing process is done through the actual use of sample commodities by several of the agencies that will eventually procure the product. Test results are reported at committee meetings and members vote on adding the tested products to the appropriate ABL.

Specifications detail the requirements pertaining to a certain commodity or service. They are drafted through research of industry sources, technical data, federal standards, and agency standards. Advisory committees attempt to develop specifications that allow for one standard product to cover the needs of all state agencies. However, not all commodities are standardized. Only those products bought in large amounts or problem areas are standardized.

Specifications for items not covered under the advisory committees are drafted, as needed, by a buyer and/or an agency. When drafting specifications for a bid proposal, a buyer and agency may solicit advice from the Standards Unit and must review existing specifications of similar products.

Sub-committees can be established by the advisory committees. Sub-committees are responsible for preparing

drafts of proposed specifications and ABLs, and more particularly, taking into account the demand and usage of uniform supplies, the ability of an industry to promptly and economically provide the commodities, and the needs of the state.

Advisory committee meetings. Policy of the Standards Unit requires regular monthly meetings unless there is insufficient business to conduct. However, not all advisory committees follow this policy. The most active committees, such as the food committee, meet monthly but the less active committees meet as dictated by need and demand.

Because of the unit's staffing constraints, all advisory committee meetings are limited to two per week. Meetings are held monthly from September through June, and the committees are required to select a particular day of the month on which to hold meetings, and adhere to that day.

Advisory committee members. Advisory committee members are appointed by the Standardization Committee. The head of the agency from which the appointee is employed either recommends the person for the position or concurs with the appointment.

Members of an advisory committee are appointed from agencies that use the products covered by that committee, and must be knowledgeable of such products. The committees strive to develop accurate points of view regarding products, conduct field tests of products, and create specifications.

The buyer responsible for purchasing a specific category of commodities is assigned to the respective advisory committee to serve as its advisor. The buyer represents the Bureau of Purchases and assists the committee members.

A standards engineer from the standards section is assigned to a respective committee to serve as its secretary. This person is responsible for maintaining a current membership list, scheduling meetings, providing agendas, preparing minutes of all meetings, and keeping a record of business transactions.

Sub-committee membership is confined to members of the main advisory committee. When necessary, persons outside of state government can be invited to join the sub-committee, and the sub-committee may also meet with industry representatives on issues of mutual concern.

Other Functions of Standards Unit

Special purchases. Special purchases may be authorized when emergency situations or unusual trade or market conditions exist. An emergency situation is defined in the purchasing manual as "extraordinary conditions or contingencies

that could not reasonably be foreseen and guarded against". An unusual trade or market condition exists when the dollar value of a special purchase request exceeds the current dollar value prescribed for advertised bids, as discussed earlier.

If either of these situations exist, and can be fully supported and justified, an agency can apply to the Standards Unit for approval of a purchase outside the competitive bidding process. The process for applying for a special purchase is termed "standardization transaction".

In a standardization transaction, three vendors must be solicited for verbal quotes and the lowest bidder selected. A letter of justification from the agency head must also be submitted to the Standards Unit. Final approval for the purchase rests with the Standardization Committee and is done by a vote of all members.

Special standards. Special standards can be requested when a state agency determines that an approved standard does not apply to, or meet, the agency's essential needs for procuring a product or service. Purchases using special standards are infrequent due to the fact that agencies seldom have adequate justification for their requests.

An agency can apply to the Standards Unit for approval for the drafting of a special standard. As with special purchases, the request is submitted to the Standardization Committee for final review and decision. If approved, a formalized special standard is drafted by the Standards Unit. The new standard is then forwarded to the agency and buyer, and the competitive bidding process is followed.

Acceptable brands list update. The Standards Unit is also responsible for reviewing and updating acceptable brands lists. To update an ABL, the unit uses several techniques such as receiving and investigating complaints from state agencies regarding products or vendors, evaluating product changes, and sending a survey concerning the ABL to agencies and vendors.

An ABL survey is sent out and subsequently tabulated by the unit during the summer months when advisory committees and the Standardization Committee do not meet. The survey solicits information regarding changes in company names, item numbers, item descriptions, new products, and evaluations of service or product from agencies. The new information is added to the appropriate ABL, and information from the survey is compared to that contained on the ABL. The unit will delete vendors from an ABL in the event that new or altered information is not provided in the survey response, or if the vendor fails to respond to the survey on two separate occasions.

Tests and Inspection Unit

In order to ensure that deliveries of goods and services contracted for by the Bureau of Purchases meet the necessary specifications, some form of inspection and testing must be conducted. The Tests and Inspection Unit is charged with providing such quality control.

To accomplish its quality control function, the unit is responsible for carrying out the following duties: 1) inspecting all commodities delivered to the bureau's Central Warehouse; 2) conducting, or arranging for, chemical and physical tests of bid and delivery samples; 3) inspecting deliveries made directly to state agencies; 4) inspecting the condition of agency storerooms and food processing areas; 5) operating the "Total Quality Control Program" in the Central Food Processing plant; and 6) responding to and resolving complaints made by agencies.

Need for tests and inspections. The Bureau of Purchases annually awards approximately 3,000 bids to 1,500 vendors for goods and services worth over \$250 million. Due to the immense volume of purchases, instances are bound to arise where a vendor, seeking to maximize profits, may try to provide a product or service that does not meet a contract requirement. Also, no matter how reliable a vendor may be, errors can occur. Without some type of testing or inspection of these purchases, there would be no way of determining whether or not state agencies are receiving the precise goods or services provided for in a contract. Frequent and proper testing or inspection can also serve to discourage vendors from providing inferior goods or services.

Every test or inspection must be conducted on a consistent and objective basis. This ensures that each product or service analyzed is done so in a manner equal with others examined.

Inspections. The authority prescribing the manner in which the Bureau of Purchases is to inspect goods and services contracted for by agencies is given in C.G.S. Sec. 4a-52(5). However, the program review committee was unable to find any formally adopted regulations regarding the manner prescribing such inspections.

In lieu of regulations, the bureau's purchasing manual defines where inspections should be conducted by the Tests and Inspection Unit. It states that inspections are to be done on "... all commodities delivered to the Bureau's Central Warehouse". The manual also states that the unit is to inspect deliveries made directly to agencies, agency storerooms, and agency food processing areas. The committee was told that due to a lack of inspectors (only two in the whole

unit), inspections conducted at state agencies is rarely accomplished.

There are several different types and methods of inspection as outlined by the bureau's inspection manual. Inspection types can include checking commodities for such factors as quality, grade, design, packaging, or any other physical characteristic ensuring the product meets specifications. Methods used by inspectors to examine products are: 1) sensory; 2) certification; 3) mechanical; and 4) performance. Prior to any inspection, inspectors are to familiarize themselves with an item's specifications. This allows the inspector to determine what type and method of inspection to use.

The most common type of inspection is done visually, or by using any of the other four senses. Inspections that include use of the senses can usually allow an inspector to adequately determine whether or not a product conforms to contract specifications, and whether it should be accepted or rejected. Different commodities require different senses to be utilized. For example, inspection of food products depends mostly on taste and smell, whereas proper inspection of furniture depends primarily on sight and touch.

Other types of inspections include certification, mechanical, and performance. Some classes of commodities are governed by grading rules established by outside industrial groups or organizations specializing in formulating quality standards. If a product meets these grading rules it will be certified. An example of this is the grading of food products by the United States Department of Agriculture (USDA). State inspectors will search for such certification prior to accepting a delivery.

Mechanical inspections are also conducted to determine the physical properties of commodities. These inspections include to use of tools, weights, or other mechanical devices. Performance inspections are done when a contract is for a service (e.g. maintenance, security). Inspectors will monitor the service providers to ensure the work contracted for is being properly done. Once an inspection is completed, inspectors are to file an inspection report.

Agency personnel responsible for inspections. Since it is difficult for only two bureau inspectors to examine commodities delivered directly to agencies around the state, agencies have designated staff who act as "inspectors". These persons may either be materials managers or receiving clerks responsible for product deliveries. When vendors make deliveries, these personnel try to inspect the goods to ensure they meet all specifications. If an agency receives a

shipment from the Bureau of Purchases's Central Warehouse, both the agency receiver/inspector and the warehouse delivery person are to inspect the shipment.

The program review committee was informed that any type of training for agency personnel in the area of inspections is extremely limited. This is attributed to the bureau only having two inspectors to conduct such training. However, on the occasions when bureau inspectors go to an agency, usually to inspect a delivery or handle a complaint, they will sometimes instruct agency personnel on different procedures of inspecting commodities.

Sample testing. There may be instances when merely inspecting commodities to determine whether they adhere to specifications is not sufficient. If this is the case, laboratory analysis and testing of product samples may be warranted. Testing can occur either prior to a contract award, when a vendor submits samples of a product, or after a delivery has been made.

The committee was informed, however, that very little testing is done once a delivery has been made, either by the purchases bureau or outside laboratories. The committee was told this is attributed to a lack of personnel and the fact that most of the bureau's testing equipment has either been sold or is outdated. Any testing conducted is primarily confined to food products and fuel oil, and is usually conducted by the University of Connecticut's Agricultural Experimental Station and the Department of Transportation.

It is the responsibility of the Tests and Inspection Unit to determine when samples are to be tested and to inform an agency that such testing is necessary. This is usually specified in the purchase order or contract award. However, in emergency situations, when an agency needs to take product samples for testing, it's the agency's obligation to report its findings to the Tests and Inspection Unit. The unit will then make its own determination as to the validity of the testing.

After samples are tested, the unit is to receive a lab report. If the lab finds that the samples meet the requisitioning agency's specifications, reports are returned favorably and product deliveries are accepted. When the sample fails the lab analysis, deliveries are rejected or a vendor is subjected to a penalty determined by the bureau's standards, tests, and inspections chief.

"Total Quality Control Program". The Total Quality Control Program is a federal program conducted by the Tests and Inspection Unit. It is designed to ensure the cleanliness and safe operation of the Bureau of Purchases's Central Food Processing plant.

Before the plant begins daily operation, a unit inspector must certify that it meets certain health and safety requirements. The areas used for processing meat products must be properly cleaned from the previous day's operation. In addition, the equipment used in the daily process must also be inspected to ensure it is in proper working condition. The committee was informed that certification of the plant takes approximately two hours.

Complaint handling. The Tests and Inspection Unit is responsible for handling complaints filed by agencies or vendors. Complaints concerning vendors, commodities, or unsatisfactory service can be reported to the unit for resolution. All complaints are to be in writing and submitted on a specified form so the unit can keep a complaint log. Except in emergencies, the unit normally will not respond to verbal complaints. Even in emergency situations, complaints should be followed up in writing on the specified complaint form.

The program review committee was informed that most complaints are resolved by telephone. However, at times a unit investigator will have to resolve a complaint by mail or in person. The committee was also told that the biggest problem in the complaint process is having agencies actually complete the form needed to initiate action. By having written complaints, the unit is able to create a file on vendors who provide low-quality service or products and use the information as physical evidence in a vendor suspension or disqualification proceeding.

Another problem with complaint reporting is that an agency will sometimes submit a complaint report to a buyer instead of the Tests and Inspection Unit. This has prompted the section chief to begin developing a complaint report logging system that centralizes the process with the inspection unit. Complaints can then be better prioritized according to level of urgency.

Vendor disqualification or suspension. In addition to terminating a contract with a vendor, the Bureau of Purchases has the ability to either suspend or disqualify any vendor from its bidders list. Vendor suspension or disqualification may occur in the following instances:

- (1) Conviction or guilty plea for a criminal offense that results in obtaining, attempting to obtain, or performance of a public or private contract;

- (2) Conviction or guilty plea for embezzlement, theft, forgery, bribery, falsification or destruction of records, receiving stolen property, or any other offense indicating a lack of business integrity or honesty which affects responsibility as a state contractor;

(3) Conviction or guilty plea under state or federal antitrust, collusion, or conspiracy statutes arising out of submission of bids or proposals;

(4) Noncompliance with contract provisions of which the DAS commissioner regards to be so grave as to indicate a lack of responsibility to perform as a state contractor, including deliberate failure to perform according to time limits specified in a contract;

(5) A recent record of failure to perform or of unsatisfactory performance in accordance with a contract's terms and conditions, unless such failure is caused by acts beyond the contractor or supplier's control; or

(6) Any other cause the commissioner determines to be so serious or compelling as to affect the responsibility as a state contractor, including disqualification by another governmental entity, having caused financial loss to the state, or having caused a serious delay or inability of state officials to carry out their duties on a past contract(s).

According to C.G.S. 4a-63, a vendor may only be disqualified from bidding on DAS contracts for a maximum of two years. Prior to disqualification, the commissioner must consult with the purchasing agency and the attorney general, and then inform the vendor he has an opportunity to be heard. Following this hearing, the commissioner has 90 days to issue a written decision as to the reason(s) and duration of the disqualification.

If the commissioner determines there is probable cause to disqualify a vendor, such vendor may be suspended from bidding on state contracts before being outright disqualified. The commissioner is required to provide written notice for the reason(s) and period of such suspension. No suspension is to exceed three months.

Commodity Cataloging Unit

The Commodity Cataloging Unit is a relatively non-functional unit within the standards section. However, it is mandated by statute that the Standardization Committee develop a system of determining quantities, sizes and varieties of supplies, materials and equipment that assists with the effective operation of the state agencies.

The system, designed by the Standardization Committee, reduces the number of items purchased by eliminating duplication and replacing seldom used items with more popular products similar in function. The use of a "common language" system has been implemented for identifying and cataloging all new, and previously contracted for, commodities.

Energy Liaison Unit

The Energy Liaison Unit is organizationally located within the Standards, Tests, and Inspection Section. It is mandated by the Connecticut Energy Plan to incorporate energy efficient specifications, and whenever possible, life-cycle cost formulae in the state procurement process. In order to accomplish this mandate, data are to be collected relating to energy efficient specifications and shared with state agencies.

The program review committee was told that this unit is non-functional and no staff is currently assigned to the unit.

CHAPTER V: GENERAL SERVICES

The General Services Section is responsible for administering two divisions composed of the following units: Central Warehouse, which maintains and delivers commonly-used items to state agencies; Central Food Processing Unit, which processes and stores meat products for use by state agencies; State Fleet Operations Office, which sets and directs policies for the daily operations of state-owned vehicles and personally-owned vehicles used for state business; regional laundries operating in Norwich and Middletown; Connecticut Food Distribution Program; Surplus Property Program; Central Mail, Courier, and Duplication Services; and central advertising billing services. This study focuses only on those units that are involved in the procurement process. Three units falling into this category are: 1) Central Warehouse; 2) food processing; and 3) surplus property. The operation of these units is described below.

Central Warehouse

Purpose. The purpose of having a centrally located and administered warehouse is twofold. First, it gives the state the ability to buy commodities in large quantities. This subsequently allows added leverage in that the state can utilize volume discounts if it buys in bulk quantities. Secondly, having a large warehouse allows items that are used intermittently by state agencies to be stocked at a central location instead of at an agency. Whenever an agency needs commodities, on either a regular or emergency basis, it requisitions the warehouse.

Function. The Central Warehouse, operating on a \$22 million revolving fund, maintains and distributes a wide variety of commonly-used items to all state agencies. The warehouse carries approximately 1,700 commodities. For the purposes of charging agencies, the commodities are placed in three categories: 1) bulk dry goods and janitorial supplies; 2) stationary, textiles, and toiletries; and 3) refrigerated items. In order to cover overhead costs, the warehouse charges 13 percent over cost for dry goods, 15 percent for paper products and toiletries, 19 percent for textiles, and 12 percent for refrigerated items.

In addition to all state agencies, non-profit entities can also utilize warehouse services. To do this, the non-profit agency must receive at least 60 percent of its funding from either the state and/or federal government, according to

Connecticut law. The agency must also obtain written authorization from the Deputy Commissioner of the Bureau of Purchases prior to receiving a warehouse account number.

Overall, the warehouse serves approximately 1,100 clients ranging from small six-person group homes to large correctional facilities. The warehouse's largest orders usually come from the Department of Correction and University of Connecticut facilities.

Requisitioning procedure. The warehouse operates through a requisitioning procedure. This procedure requires certain actions to be taken by both an agency and the warehouse. The necessary steps to complete the requisitioning process are as follow.

To initiate the process, pre-itemized requisition forms are used. These forms catalogue all items carried by the warehouse into five groups; each group correlating with the three stock categories previously discussed. The pre-itemized portion of the form specifies the quantity and price for each item.

delivery dates are scheduled on a rotating five-week shipping cycle determined by agency location based on the calendar year. Each participating agency receives a copy of the schedule prior to the start of a new year.

Once the warehouse receives a requisition, the form is reviewed and checked for: (1) appropriate billing and delivery address; (2) appropriate authorization and signature; (3) mistakes in quantity order; (4) special or emergency requests; (5) if the item is in stock; and (6) if the requisitioned items are on back-order. A shipping memo is then produced. Requisition information is also sent to the Bureau of Information Systems and Data Processing (BISDP) center in Hartford for processing.

For the most part, an agency will receive exactly what it originally requested. Occasionally, the warehouse will allow agencies to make adjustments after orders have been assembled if the new request does not disrupt warehouse workflow. In some instances, as discussed later, the warehouse may substitute items for a particular reason.

When a warehouse delivery arrives at an agency, the goods are inspected by the agency and the deliverer. The warehouse then bills the agency for the goods shipped.

Substitutions and emergency requests. Although the Central Warehouse attempts to maintain a sufficient level of commodity stock, there may be times when an item is not available. In this situation, the warehouse will attempt to make substitutions with a comparable commodity in the same

price range. The need for substitution is usually not detected until the warehouse actually begins to assemble an order. The program review committee was informed that the warehouse has a not in stock rate of 5 percent, compared to the private industry rate of 10 percent.

If the difference between a substitution and the original order, the warehouse will not notify an agency that it is making a substitution. However, if the substitution is results in a significant change, for instance a higher price or a completely different item, the warehouse is to contact the agency for permission to substitute, and adjust the order accordingly.

Instances also occur when an agency needs to make an emergency requisition. The warehouse will make a determination as to the severity of the situation and adjust deliveries accordingly. In cases deemed extreme emergencies, orders can be delivered within two or three days. Agencies can also arrange to pickup emergency orders, usually within 24 hours. The program review committee was told that, on average, there are approximately four agency pickups a day.

Techniques to handle emergency orders include an Excess Order Authority (EOA) clause and utilizing other existing contracts. The EOA clause is an agreement between a vendor and the warehouse allowing for additional quantities to be purchased at a specific price following the last scheduled delivery. It is usually built into an original purchase contract.

Delivery Discrepancy

As mentioned earlier, deliveries are to be examined before any shipment is accepted by an agency. If any discrepancies (deletions, additions, wrong items, or damaged goods) are found, they are to be noted on the shipping memo. Shipments, except for damaged goods, are returned to the warehouse.

Discrepancies concerning damaged goods are to be reported immediately to a bureau inspector. The inspector then determines when and how the goods were damaged, usually by a phone call or visit to the agency.

The program review committee was informed that since there is no written policy for inspections, it is the inspector's discretion whether or not to visit the site. The committee was also informed that since there are only two inspectors for the entire state, investigations may take up to six months to complete.

Account adjustment. If any discrepancies are discovered by an agency after a shipment has been accepted, they are to

be noted on an adjustment form. This form is to be submitted to the warehouse within three working days for proper credit adjustment.

Agencies may not return deliveries with the adjustment report. Once an agency's problem is verified, arrangements are made to return the stock. The committee was informed that discrepancies are sometimes not reported until several months after delivery.

Quality Control

According to the purchasing manual, bureau inspectors are to examine all deliveries made to the warehouse. The committee was informed that this is difficult to do given the lack of inspectors and their other responsibilities. If any discrepancies are found by warehouse receivers, an inspector is to be immediately notified to examine the questioned shipment and determine proper recourse.

If a shipment is acceptable, the commodities are stamped with the arrival date and stocked in their appropriate location. A routine update of warehouse stock is done by rotating products allowing for the oldest dated items to be used first. Shipments that are not accepted are sent back to the vendor for replacement.

In addition to examining deliveries, bureau inspectors periodically tour the warehouse for inspection of the physical plant. A standardized form is completed and a formal report is made to the Standards, Tests, and Inspection Section chief.

The program review committee was told that only periodic inspections can be done due to the lack of inspectors. This is evident from the figures given in Table V-1 illustrating the results of warehouse inspections dating back to December 1987. The table shows that only 17 warehouse inspections have been done in the last 19 months.

Inventory

In order to keep track of inventory, the warehouse produces a daily stock status report listing various items relating inventory. The report is, on average, one or two days behind.

The stock data are also used by BISDP to prepare six-month issue reports listing requisition data on part of the warehouse. These reports allow the warehouse to take inventory, determine available floor space, analyze commodity

trends, and establish which items may be discontinued. The report is also used to track questioned requisitions and adjustments.

Table V-1. Inspection Results of Central Warehouse --
December 1987 to Present.

<u>Questions on Inspection Report</u>	<u>Yes</u>	<u>No</u>
1. General housekeeping procedures observed?	3	14
2. Evidence of infestation?	2	15
3. Evidence of ripped bags, broken cartons, or damaged stock?	15	2
4. Obvious safety hazards?	14	3
5. Is new stock dated, rotated, and properly stored?	14	3

N=17

Source: LPR&IC Staff Analysis of Bureau Inspection Reports.

Stock replenishment. In the normal course of business, if the warehouse depletes its stock it is replenished through the competitive bid process. However, if it is determined that a new item is needed, and there is enough warehouse space, the standardization advisory committee having jurisdiction over that particular item is consulted.

A buyer will suggest to the committee that a feasibility study be done. This study tries to (1) establish if there is a real commodity need among using agencies, (2) examine market conditions related to the commodity, and (3) determine if it would be cost-effective for the warehouse to procure and stock the item. If it is determined there is a strong need for the commodity, specifications will be developed prior to the competitive bid process.

Central Food Processing

The Central Food Processing plant is located in the same building as the Central Warehouse, and provides the warehouse with meat products so it can replenish its inventory. The

warehouse then uses this stock to fill agency requisitions.

The plant maintains a main cutting room for meat, a blast freezer, and refrigerated storage space. The plant also has the capacity to process seventy-five different beef, veal, and pork items. Plans are also being developed to begin processing poultry products.

In fiscal years 88 and 89, the plant processed 1,152,000 and 1,620,000 pounds of meat respectively. It had revolving fund budgets of \$2.5 million and \$3 million during the same fiscal years. The plant is staffed with 15 employees.

The Central Warehouse maintains its own inventory of frozen and refrigerated meat products. When an agency requisitions the warehouse for a meat order, it is filled using this inventory. The warehouse then delivers the order or arranges for an agency to pick-up its own order.

When warehouse inventory levels run low, the processing plant is notified and stock is replenished. The warehouse maintains an inventory to handle three to four weeks of normal requisitions. When the meat plant needs to refill its inventory, it goes through the normal competitive bid process. In essence, the plant is the Central Warehouse's private vendor for meat products.

Surplus Property Program

The Surplus Property Program is administratively located within the General Services Section of the Bureau of Purchases. There are three units dealing with surplus property from different sources including: 1) State Surplus Property; 2) Federal Surplus Property; and 3) Federally-Donated Foods.

The units are the administrative repository for surplus property and, as such, are responsible for inspecting, processing, distributing, selling, and auctioning property deemed to be excess or outdated. The program operates a warehouse and store where items are stocked and serviced. Also, federally-donated foods are stored and distributed from a private warehouse; a service that has been contracted for by the bureau.

Organization and resources. The Surplus Property Program is run by a director and each of the three units are headed by an administrator. In addition, the State Surplus Property Unit is staffed by eight employees; Federal Surplus Property Unit is staffed by four; and the Federally-Donated Foods Unit is staffed by five.

The units run their operation with funds amassed from sale of the property, and federal funds designated for administration of only the federal programs. The Surplus

Property Program does receive some money from the state. The General Fund supports two full-time positions and provides approximately \$75,000 per year in supplemental support. Profits of all three units, minus operating expenses, are deposited in a revolving fund. During fiscal years 86 and 88, the surplus program had a combined net profit of \$165,911.

Table V-2, outlines the consolidated income of all three units during FYs 86-88. The income represents the profits, losses, and expenses to operate each of the units.

Table V-2. Surplus Property Programs Consolidated Income:
FYs 86-88. (In dollars)

<u>Program</u>	<u>FY 86</u>	<u>FY 87</u>	<u>FY 88</u>
State surplus	223	36,509	26,318
Federal Surplus	7,880	65,572	(4,355)
Donated Foods	<u>(68,649)</u>	<u>68,883</u>	<u>33,526</u>
TOTALS	(60,544)	170,965	55,490

Source: LPR&IC Staff Analysis of Surplus Property Income Statements.

In FY 86, the Surplus Property Program had a net loss of \$60,544 due to the Federally-Donated Foods Unit operating at a loss of \$68,649. In FY 88, the federal surplus unit operated at a loss of \$4,355, however, the program as a whole had a net profit of \$55,490 for the year. These losses are incurred when the units' operating expenses exceed profits for the year.

Program operation. State and federal agencies are responsible for declaring their property as surplus and notifying the staff operating the Surplus Property Program. Once the property has been received, and serviced if necessary, it is offered for sale to other state agencies or municipalities. Federal surplus property can also be sold to authorized organizations.

The fee schedule for selling state surplus property to agencies and municipalities is not based on item value. Rather, the fees are set at \$30 for the first item and \$5 for each additional item. The federal surplus property fee schedule is determined by DAS and approved by the federal government. It is based on 10 percent of the acquisition value of each item.

All state surplus property not bought by state agencies or municipalities is placed in the retail store, which is open to the general public. Prices for items are based on what the retail market will bear, reference manuals, and retail catalogues.

Surplus property not sold during a one-year period, or labeled as non-usable upon inspection, is destroyed because there are no regulations or policies governing the donation of such property. The state and federal surplus property units deal with approximately 40,000 items per year.

The surplus program will accept all items but liquids and sealed cans or barrels. These items are not taken because of their danger of being hazardous waste materials. The program does not have proper facilities or expertise to deal with hazardous waste, nor does it have the funds to contract for removal of such waste.

Vehicle auction. The State Surplus Program is also responsible for selling or auctioning all surplus vehicles. Approximately 1,200 to 1,500 vehicles are sold per year.

State agencies and municipalities submitting surplus vehicles for auction are required to pay a \$115 service charge to the program. Surplus vehicles are also initially offered for sale to state agencies and municipalities. The price of the vehicles is based on industry set prices minus \$75.

Auctions are held eight times a year. However, if the number of surplus vehicles exceeds storage space, additional auctions can be held. Also, due to the large quantity of surplus trucks and heavy equipment, a yearly auction is held.

Firearms auction. In addition to vehicles, the State Surplus Program has been authorized to auction surplus or confiscated firearms for the last two years. The firearms are processed through the Department of Public Safety's Division of State Police, and are classified as either pistols or long guns. Separate auctions are held on an as needed basis.

State police troopers are present during the auctions and, on occasion, a representative from the U.S. Bureau of Alcohol, Tobacco and Firearms will be present.

Federally-donated foods. The Federally-Donated Foods Unit processes such food to schools, state agencies, and authorized camps and organizations. The unit process foods in value of \$20,000,000 per year.

This unit receives some operating funds from the federal government, but like the other unit it mostly operates on profits generated by the program. The foods are sold for the cost of redistribution only, which includes delivery, storage and personnel costs. For example in FY 87, the cost for redistribution was \$95,000.

Donated foods are available in government controlled quantities. The unit has the option to refuse or accept abundantly available foods in the Bureau of Purchases' Central Warehouse.

Federally-donated foods can also be sold to the purchases bureau. The buyer responsible for procuring food commodities can review the donated foods available and purchase them instead of going through the competitive bidding process with commercial vendors.

CHAPTER VI: RESOURCES AND FACILITIES PLANNING

The Resources and Facilities Planning Section is responsible for establishing procedures and assisting state agencies in acquiring electronic data processing (EDP) equipment. The planning section is involved in selecting and purchasing EDP resources such as computer hardware, software, maintenance, outside information processing services, and consultant services. The key objective of the section is to promote a coherent policy for the procurement of electronic data processing systems in a cost effective and timely manner.

The specific functions of the planning section are to establish rules and procedures that assign the responsibilities for planning, specification development, vendor solicitations and evaluations, resource selection, contract negotiations, and contract administration. A detailed procedure manual, written by the planning section, outlines the EDP procurement process.

Resource Procurement Process

The purchasing of data processing resources differs from that of other goods and services in that many factors, other than just the lowest price quotation, must be evaluated when choosing a vendor. Most proposals for data processing procurement are complex due to the fact that a package of hardware, software, installation, training, and maintenance is generally being purchased. Evaluation of EDP resources requires expertise that most agencies lack. The process for procurement reflects these factors and attempts to overcome the difficulties encountered in purchasing complex computer systems. Vendor proposals are "scored" and ranked according to criteria that includes both price and how well the proposal meets the needs of the agency.

Procurement responsibility is divided among three agencies, the Department of Administrative Services' (DAS) Bureau of Purchases (Resources and Facilities Planning Section), the DAS Bureau of Information Systems and Data Processing (BISDP), and the requesting agency. Requests are placed into three categories based upon price. Different procurement procedures apply for each category. The following table outlines the minor, intermediate, and major procurement categories.

Table VI-1. EDP Procurement Categories.

<u>Purchase Price</u>	<u>Agency Involvement</u>
Under \$10,000	Requesting agency determines need. Agency follows DAS procedures. DAS involvement minimal. DAS receives copy of purchase order.
\$10,000 to \$20,000	Requesting agency determines need. DAS conducts cursory review and validation of vendor quotations. DAS approves request.
Over \$20,000	Three agencies involved: Requesting agency, Bureau of Purchases, and BISDP. (Procedure outlined below)

Source: LPR&IC Staff Analysis.

Major EDP purchases. Purchases of EDP resources in excess of \$20,000 require the greatest amount of involvement by the three agencies. The requesting agency will outline the needs and BISDP will evaluate an agency's request to determine if it meets its long range data processing plan. All three agencies will develop specifications for the resources being purchased and the Resources and Facilities Planning Section will prepare, advertise, and solicit "requests for proposals" from vendors.

An evaluation committee is appointed with a representative coming from each agency. The primary responsibility of the evaluation committee is to establish the methodology and criteria to be used to evaluate vendor proposals and make a selection. The evaluation committee will issue a report on all vendor proposals that pass an initial administrative review by the planning section. The evaluation report will score and rank various aspects of the vendors proposal and make a recommendation on their choice.

Upon agency concurrence with evaluation committee's vendor selection, letters awarding the contract are mailed. Negotiations on the final contract language can involve the agency, planning section, and vendor before a final agreement

is reached. Once a final agreement is reached the facilities and planning section will assist the agency with administration of the contract.

Any vendor wishing to dispute the selection may do so by requesting a debriefing from the Resources and Facilities Planning Section director. The purpose of the debriefing is to provide non-selected vendors with information regarding final ranking and score of their proposal with that of the vendor who was awarded the contract.

Resources and Facilities Planning Section Activities

For the fiscal year ending in 1988, the Resources and Facilities Planning Section received requests for the purchase of \$57.9 million worth of computer-related equipment and services. The prior year's requests totaled \$56.4 million. Both years represent a large increase from FY 86 when the total requested was \$34.8 million.

In FY 88 the planning section received 1,895 EDP requests with 85 pending from the prior year for a total of 1,980. The section was able to process 1,901 of those applications for a completion rate of 96 percent. Of the 1,670 EDP requests made in FY 87, 1,585, or 94.9 percent, were processed.

The section has a staff of 13 clerical and professional employees to carry out its functions.

CHAPTER VII. FINDINGS AND RECOMMENDATIONS

The following chapter presents the Legislative Program Review and Investigations Committee's findings and recommendations in areas where the Bureau of Purchases's operations can be improved. The topics covered include the procurement process, contract award extensions, inspection of purchases, direct purchasing authority, Central Warehouse operation, surplus property, training, and agency regulations.

Procurement Process

The program review committee found a lack of computerization of nearly all aspects of procurement. The bid process, development of specifications, solicitation of quotes, and awarding of contracts are handled manually. There are no aggregate data on the amount or price of contracted items. This lack of automation limits the bureau's ability to analyze trends in state purchasing or audit agencies that are required to purchase goods and services through the bureau.

The bureau's purchasing system should also be better integrated with the entire purchasing process. Currently, the Bureau of Purchases only handles the contractual phase of the process. The actual purchase of a good or service is done by the agency making the requisition, and payment is made by the comptroller. Information on what was ultimately received and the payments made is not captured by the bureau. Its present role is only to insure that a competitive bidding process for goods and services is followed. The committee believes that this role should be expanded to include more of the purchasing cycle.

As part of this performance audit, the program review committee compared the state's procurement system with other systems. The committee received information on the Connecticut Hospital Association's purchasing system for hospitals, the state Department of Transportation's (DOT) system, and the purchasing mechanism for Aetna Life and Casualty.

Aetna had the most advanced procurement system, which included on-line computer information containing data on vendors, purchase orders, contract specifications, invoices, and schedules. The system took five years to develop and has been in place for five years. This process allows the buyer within Aetna's purchasing division to closely monitor the entire purchasing cycle, from bid solicitation to the invoicing and receiving of products.

At the Department of Transportation, three areas within the agency are responsible for the bidding process. One area develops bids, quotes, and contracts, another handles the purchase orders resulting from the contract awards, and a third area functions as the payments unit, matching invoices with purchase orders and the original contract agreement. The department does not have any automation, but is involved in a study with an outside consultant to computerize its purchasing process.

These two systems, Aetna and DOT, represent fundamental differences with state procurement. Both systems involve the agencies throughout the buying process. In the state's procurement system, when a purchase is made using the competitive bid process, a contract award is issued by the bureau's buyers and copies of the award are sent to the requisitioning agency. The agency is then responsible for issuing a purchase order and forwarding it to the comptroller. Once the funds are determined to be available, the comptroller sends the purchase order to the vendor for delivery of goods. Following delivery, the agency sends a copy of the invoice back to the comptroller.

Aetna and DOT, on the other hand, differ in that buyers are not only responsible for making contract awards, but also for issuing purchase orders. The program review committee was informed that by producing both contract awards and purchase orders, it's believed buyers can better monitor the process than if they only processed contract awards. Moreover, Aetna's automated system electronically forwards purchase orders to the company's accounts payable division, thus decreasing processing and delivery time.

The failure within the state's process is that the Bureau of Purchases's role ends when it issues the contract award. Thus, buyers may never know if an agency actually carried out the contract for the goods originally requisitioned. Moreover, the committee believes the bureau cannot conduct analysis of actual agency purchases because it does not receive this information.

During the course of the study, state auditors were contacted to discuss this shortcoming of the state's purchasing system. They noted in a recent audit of Connecticut Valley Hospital that its purchasing and accounts payable functions needed to be improved. They said "frequent failure to review quoted and/or invoiced prices for conformity with contract terms was evidenced by the lack of price lists or catalogs needed to determine the appropriate prices for a great number of goods and by a number of overpayments, some of them substantial, made for goods and services the proper costs of which could be determined by the documentation on hand at the Hospital". Aetna indicated that the possibility

for errors in differences between contract awards, purchase orders, and invoices is likely without adequate controls.

The state's system relies on individual agencies to match purchase orders with the original contracts and invoices. In addition, the comptroller's office said it routinely checks invoices with original purchase orders. However, all checks are done manually without the benefit of computer matching. The committee found that although the comptroller's business office receives copies of each contract award, the accounts payable division does not regularly check to see if the purchase order corresponds with the award, prior to issuing payment. The committee was told that there is not enough staff to do this task, therefore only individual agencies conduct this function.

Personnel involved in the purchasing function, and the training they receive, can also vary widely. According to a survey conducted by the committee, nearly a third of the agencies responding do not have a separate purchasing unit. Two-thirds of the purchasing officers have been with the agency less than five years, and 61 percent indicated that the training they received to become a purchasing officer was either less than adequate or poor. Fifty-four percent believed that the in-service training they received after assuming their position was also less than adequate or poor.

Bureau officials agree the procurement system could be monitored better if buyers issued purchase orders and received invoices. However, they believe workload levels for buyers would greatly increase. Both the bureau and the comptroller's office estimate that there are approximately 100,000 purchase orders processed for competitive bids yearly. While there are approximately 3,000 contracts, each contract can result in multiple awards and multiple purchase orders. Thus, during a normal working year of 230 days, each of the 10 buyers, on average, would be required to process 43 purchase orders a day. The committee also found that although purchase orders are sent back to the Bureau of Purchases by the comptroller, nothing is done with them.

Given the lack of computerization within the bureau, the committee recognizes the strain on resources that would result from requiring buyers to issue all purchase orders and receive all invoices. Therefore, the committee believes that the bureau undertake a phased-in approach that would ultimately lead to a more centralized procurement function.

The Legislative Program Review and Investigations Committee recommends that the bureau begin a program of auditing purchasing transactions by matching contract awards with purchase orders and invoices. The audit program should involve the selection of random contracts on a regular basis to determine if the purchase price ultimately charged for a good

or service matches the contract price. This program should begin immediately and discrepancies are to be reported to the state auditors.

The committee also recommends that the bureau begin to automate its competitive bidding process including the development of specifications, solicitation of quotes, selection of vendors, issuance of contracts, and placement of orders. The system should be able to issue purchase orders from contract awards and allow for the invoicing of goods or services upon receipt by agencies.

Implementing these recommendations will result in an integrated procurement system that could send information to the comptroller for payment electronically. This would be very difficult to achieve if all state agencies are sending purchase orders and invoices separately. The committee believes that these recommendations will also result in better monitoring of the state's procurement process. Automation will result in centralization and cost savings coming from the improved processing of purchases.

The committee further believes that the audit program will not drastically add to the workload of bureau personnel compared to buyers actually creating individual purchase orders.

Contract Extensions

The focus of the performance audit conducted by the committee was the procurement process, and in particular the competitive bidding process handled by the Bureau of Purchases. One aspect of this process, the extension of existing contracts, was found to be operating without authority or regulation.

Extensions are usually amendments to contracts originally awarded for a specific period of time. A contract extension allows commodities or services bought under an existing contract to continue to be purchased for another specified time period. Extensions can be requested by a buyer, user agency, or vendor currently supplying the commodity or service.

Authority to extend. The bureau has not developed regulations or a policy governing contract award extensions, nor does it have explicit statutory authority to do so. It appears as though the bureau's only authority to extend contracts emanates from a single source, which is contract language drafted by the attorney general's office.

Contracts awarded by the bureau all contain standard language pertaining to the legalities of entering into a binding agreement with the state. The terms and conditions

of the contract state, "... the State reserves the right to extend the contract resulting from the issuance of this bid invitation for additional periods with the consent of the contractor".

The program review committee found the bureau's authority to extend contracts a concern for two reasons. First, the practice of extending contracts has not been clearly authorized in statute by the General Assembly. Since all state agencies, including the Department of Administrative Services, receive all authority from statute, there is a question as to whether the bureau can legally extend contracts.

Secondly, without statutory authorization the bureau has unlimited discretion concerning extensions. For example, there are no limits as to the number of times a contract can be extended. Without such limitations, the bureau can effectively shut out other vendors, thus narrowing competition.

Based on these concerns, and the fact that extension language is included in bureau contracts, it can be questioned as to whether or not the bureau is violating the purchasing statute as it now exists. The committee believes that the practice and authority to extend contracts is very unclear and perhaps illegal.

Analysis of Extensions

During the committee's examination of the performance of the procurement process, it was found that during a period of three fiscal years, extensions represented 35 percent of all contracts awarded and totalled over \$86 million. Also, review of a random sample of 461 contracts found little to no notation of extensions in the files.

To examine the number and types of contract extensions, a survey of all bureau buyers (Appendix A) was conducted. The survey solicited general information concerning the reasons for extensions, factors considered by buyers before extending contracts, and buyers' opinions about the extension process. The survey also requested detailed information about actual extensions given by buyers during the 1988-89 fiscal year.

Extension requisition. As stated previously, a contract extension request can be initiated by the user agency, vendor, or buyer. For the period analyzed, the majority of extensions, 51 percent, were initiated by a buyer. The user agency requested extensions in 46 percent of the contracts, and vendors in only 3 percent of the contracts.

Based on the data, and interviews with buyers, it is the buyers that decide which contracts are extended. Also, there

is no formula or standard in place for buyers to gauge the circumstances in which an extension would be beneficial to the user agency or financially advantageous to the state.

Number of extensions. Monthly reports issued by the chief of procurement showed that in FY 87 extensions represented 55 percent of all contracts awarded; in FY 88 a decrease to 23 percent; and in FY 89 a slight increase to 29 percent. These figures are the combined statistics of all ten buyers. Whereas, the survey responses are based on individual buyer statistics, and showed a different picture in terms of the extensions as a percentage of the total number of contracts awarded.

Table VII-1 presents the percentages of all contracts for which an extension has been awarded per buyer.

Factors for extension. Contracts are extended based upon whether or not the current vendor under contract is providing the highest quality commodity or service for the lowest possible price, and if there is no other competitor who can provide the same. Although, there are other reasons for awarding an extension.

The buyers were surveyed as to what factors they considered when extending a contract. Table VII-2 lists these factors, and the number of buyers that considered them. The table also shows the frequency with which these factors were considered.

Extension award procedure. The procedure for extending a contract is not set out in the bureau's purchasing manual or in statute. The Legislative Program Review and Investigations Committee found that contract extending is an internal, unwritten practice followed by the bureau's buyers. The procedure for extending contracts requires little recordkeeping or notation on the reasons for the extension or the process. There is no limit to the number of extensions that can be made to a contract.

Once an extension has been requested, the vendor responsible for the existing contract is contacted to confirm price and availability of the commodity or service. The buyer is also responsible for examining market conditions and changes in value. A buyer can, at his discretion, contact other vendors of the commodity or service to give them the opportunity to submit lower or equal price quotes. If there appears to be competition from other vendors, the extension request is denied. However, if there appears to be no competition, or other vendors were not contacted by the buyer, the extension is given. The extension period is recorded on a bureau form that is also used to record addendums and cancellations to contracts. This form is filed with the original bid proposal and contract.

Table VII-1. Percentage of All Contracts Awarded Extended During FYs 87-89.

<u>Buyer</u>	<u>FY 87</u>	<u>FY 88</u>	<u>FY 89</u>
1	12.5%	12.5%	12.5%
2	36.6	34.1	12.1
3	20.0	20.0	20.0
4	0	10.0	7.0
5	40.0	40.0	40.0
6	0	0	0
7	0	0	1.0
8	4.3	4.3	4.3
9	33.0	19.0	23.0
10	0	0	15.0

"0" Indicates No Answer Provided By Buyer.

Source: LPR&IC Staff Analysis of Buyer Survey.

All ten buyers adhere basically to the same procedure. However, there are certain steps that are performed randomly at a buyer's discretion. For example, before extending a contract, vendors -- other than the vendor presently under contract -- may be solicited for price quotes. Buyers can use this information to help maintain competition and obtain the lowest possible price for quality goods and services. It can be based on this information whether an extension is denied and the contract subsequently being rebid.

The bureau considers it good practice for buyers to contact outside vendors prior to giving an extension. However, the committee found that buyers are not consistent in following this practice. The majority of buyers, seven out of ten, indicated they "sometimes" contact outside vendors; one buyer answered "rarely"; one answered "always"; and one answered "never".

Table VII-2. Factors Considered Before Awarding Extensions.

<u>Factor</u>	<u>Always</u>		<u>Sometimes</u>		<u>Never</u>
Extension price is same or lower than original contract price	6	3	1	0	0
Market conditions indicate rise in prices or unavailability of product	6	3	0	0	0
Vendor and/or product has performed well	7	3	0	0	0
Vendor known to be sole source of product/service	4	3	1	2	0
Contract too large to continually re-bid	0	1	1	2	6

N=10

Source: LPR&IC Staff Analysis of Buyer Survey.

When following this practice, buyers are expected, but not required, to contact at least three outside vendors for price quotes before extending a contract. All buyers indicated that, when outside vendors are contacted prior to an extension, between one and three vendors are contacted.

Based on this information, the program review committee found that there is little attention focused on analysis before extending a contract. Information from outside vendors can give buyers a strong basis to compare the quality and price of goods and services that the state is presently receiving to what other vendors have to offer. Moreover, it does not appear that any useful analysis of present market conditions, and commodity value, can be done without direct information from suppliers in the marketplace.

Another part of the process is to assure that the commodity or service under contract is acceptable to the user agency. Buyers must determine that the product or service is of the highest quality, and that rebidding the contract would

not result in a better product or service. To properly do this, it would appear as though the buyer should rely on performance information.

In response to the survey, three buyers stated that they "always" receive performance information prior to extending a contract; five "sometimes" receive the information; and two buyers "rarely" receive it. Table VII-3 presents the manner by which buyers receive or solicit performance information, and the frequency with which they receive or solicit it.

Table VII-3. Performance Information Received/Solicited Prior to Contract Extensions.

<u>Reasons</u>	<u>Always</u>		<u>Sometimes</u>		<u>Never</u>
Buyer contacts agency	3	4	3	0	0
Inspector provides information	0	3	3	2	2
Advisory committee consulted	0	2	0	5	2
Buyer contacts Central Warehouse	2	2	2	2	0
Agency complaints received by buyer	3	4	2	1	0
Positive performance reports issued by user agency	1	1	2	4	1

N=10

Source: LPR&IC Staff Analysis of Buyer Survey.

There are no limits on the number of extensions that can be awarded to a single contract. This practice of continually extending a contract creates a false minimum price for the commodity or service. The vendor must only maintain his initial price and level of service to be awarded the extension. Other vendors who are not solicited are not given the

opportunity to underbid or offer a higher quality service or commodity to the state. These extensions effectively stop competition.

Buyer response. As previously mentioned, buyers were surveyed as to their opinions on the merits of extensions. Of the ten buyers queried, all answered that the present system of extending contracts is effective in terms of obtaining the best price for quality products or services.

During the committee's review, it was initially concluded that extensions were a way to control a buyer's workload. A buyer with multiple contracts, or a large single contract, could make extensions to those that were not problematic for user agencies. However, survey responses showed that six buyers did not use extensions to control their workload, whereas four did. This issue elicited similar written comments from many of the buyers in that they strongly believed extensions were not used as controls on workload.

Based on the analysis of contract extensions, the committee found this area of the procurement process to be in need of regulation and control. It was concluded that all buyers must begin to extend contracts based on the same criteria and procedure. Contract extension information should also be noted and filed with each contract.

Moreover, the committee determined that there should be limits set on the number of times a contract can be extended so as to promote competition, fairness, and a more realistic market for some commodities and services. The committee understands that particular contracts lend themselves to being extended, and that contracts not meeting the criteria or requiring special attention could be reviewed by the bureau's deputy commissioner for exceptions to the regulations.

The Legislative Program Review and Investigations Committee recommends that the authority to award contract extensions be set out in statute and included in regulations to be drafted by the Bureau of Purchases.

The committee also recommends that it be in statute that contract extensions must be awarded and approved by the Deputy Commissioner of the Bureau of Purchases based on standard criteria. The criteria should include: 1) a determination that the rebidding of a contract would cause a hardship to the user agency or to the state; 2) documentation of drastic price escalations of commodity or service; or 3) documentation concerning the unavailability of a product or service.

The program committee further recommendeds that the number of extensions per contract should not exceed two. This allows an average one-year, term contract to perpetuate

through extensions for three years -- an initial one-year period plus two one-year extensions.

It shall also be required that at least three outside vendors be solicited for price quotes before any contract is extended. If any vendor can meet or beat the present vendor's price or terms, or provide a higher-quality commodity or service, the contract may not be extended and must be re-bid.

The committee recommends that vendor information be recorded and filed with each contract. Such information shall include the vendor's name and address, price quote, commodity or service specification, availability of acceptable alternatives, vendor willingness to enter bid in competitive bidding process, and any other information that the bureau finds useful.

The chief of procurement noted that there is currently a revision being made to the procurement process cover sheet contained in each contract file. The cover sheet is used to log dates of activity on a bid and contract award. The revision is expected to include that the dates of extension activity and particular vendor information be recorded on the cover sheet. This information is, at best, only the minimum amount of data that should be kept by the bureau.

Also, since the cover sheet is currently only a log for dates and used for oversight, it does not conform to the committee's recommendation of what information is to be kept. Therefore, the bureau should consider developing an extension data sheet as well.

Inspection of Purchases

The program review committee believes it is essential that goods and services delivered to the state are the same as those expressed in the original contract. Subsequently, the committee examined the inspection and complaint handling processes, including inspection of deliveries made to the Central Warehouse and state agencies, the complaint handling process to determine how well the Inspection Unit is carrying out its responsibilities, and if adequate resources are available.

Inspection of deliveries to warehouse. The bureau's purchasing and inspection manuals state that all deliveries made to the Central Warehouse are to be inspected by the Inspection Unit. Such inspections are to ensure that vendors adhere to contract specifications. However, it was found that due to the limited number of inspectors -- only two at the present time -- examining all deliveries is not practicable when combined with the unit's other duties of responding to complaints, testing and analyzing products, and

dedicating two hours per day to fulfill federal requirements regarding inspecting the meat plant.

The committee was informed that inspections are concentrated primarily on the dry goods section of the warehouse, and not the paper products or refrigerated goods sections. Inspections of deliveries made to these other warehouse areas are not done on a regular basis, but rather in response to requests by warehouse receiving personnel when they suspect a questionable delivery.

Since the bureau's policy is to inspect all deliveries made to the warehouse, the program review committee analyzed and compared monthly inspection activity reports, which contain the number of delivery inspections for a particular month, with the total number of deliveries to the warehouse for the 1988-89 fiscal year. This was done to determine the actual percentage of deliveries being inspected. Also included in the analysis is the number of delivery rejections made by the inspectors. Figure VII-1 shows the results.

As shown in Figure VII-1, 36 percent (1,904) of the 5,332 deliveries were inspected during the last fiscal year. When broken down further, the activity reports show the number of monthly inspections ranged from a low of 143 inspections to a high of 234. On average, there were 173 inspections conducted monthly, or close to 3 per day for each inspector.

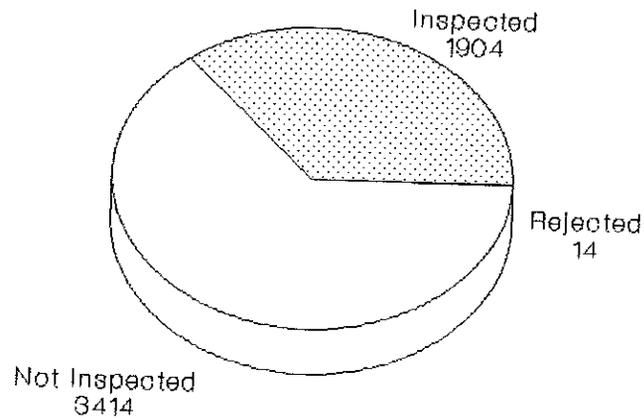
Figure VII-1 also shows that the total number of rejected deliveries, when compared to the number of deliveries, is extremely small. Only 0.7 percent (14) of the 1,904 deliveries inspected were rejected by inspectors.

Since it is the bureau's policy to have all deliveries inspected by the Inspection Unit, the committee concludes this is not being done. However, the committee also believes that based on the few number of rejected deliveries, the quality of deliveries made to the warehouse is good. In addition, according to the committee's survey of agency purchasing officers (Appendix B), when asked to rate vendor performance, almost 81 percent responded that they have problems with vendors in 10 percent of the time or less.

Therefore, the Legislative Program Review and Investigations Committee recommends that the Bureau of Purchases re-evaluate its policy of having the Inspection Unit examine all deliveries made to the Central Warehouse in addition to its other duties. If the bureau concludes this is the best policy, it should seek additional inspectors to handle the increased workload. If the bureau determines its policy is

not to have all deliveries inspected, it should indicate so in its manuals. Furthermore, when purchasing regulations are adopted the role of the Inspection Unit should be clearly defined.

Figure VII-1. Number of Deliveries to Central Warehouse Inspected/Rejected -- FY 89.



N=5,332 July 1988 Figures Missing

Source: LPR&IC Staff Analysis.

Since it was found that the bureau does not inspect all deliveries made to the Central Warehouse, as its manuals dictate, this recommendation allows the bureau to re-examine its policy. If the bureau decides not to change its current policy, the program review committee believes more staff

resources will be needed. If the bureau decides that all deliveries should not be inspected, it should change its manual to avoid any contradiction between policy and actuality.

Inspection of deliveries to state agencies. In addition to inspecting deliveries made to the warehouse, the purchasing and inspection manuals state the Inspection Unit is also responsible for inspecting deliveries made directly to agencies. The committee found that the number of inspections conducted at the agency level is extremely low in relation to the number of deliveries made to state agencies. In fiscal year 1988-89 (excluding July 1988), figures from the unit's monthly activity reports show that only 16 inspections were made at the agency level during this period. And according to the comptroller's office, there were approximately 100,000 purchase orders issued by agencies in FY 89 -- not including orders under \$600 -- culminating in product deliveries by vendors.

Moreover, the program review committee was told that inspections are mostly conducted at agencies doing volume business with the Central Warehouse. For example, agencies receiving large amounts of refrigerated items from the warehouse are inspected most often to ensure they follow proper storage and handling procedures. Inspections are also done in response to agency complaints warranting an inspector having to go visit an agency.

The committee also found that protections do not exist at the agency level to ensure proper inspection of commodities they receive. According to the of purchasing officers survey, in 50 percent of the time the ultimate user of a product or service is responsible for inspecting that commodity to determine if it is satisfactory. In addition, the program review committee found that no formalized training in the area of delivery inspection is given to agency personnel by the Inspection Unit.

Although it would be ideal to inspect more deliveries made by vendors to agencies, it is difficult to determine an appropriate number and still remain within the confines of staff resources.

Thus, the program review committee recommends that the Bureau of Purchases develop a policy on conducting agency inspections, and that this policy be included in the forthcoming purchasing regulations. The policy should clearly state the requirements for performing inspections such as when inspections should be conducted, how often they should be done, and what guidelines should be used when inspections are made.

The program review committee believes this recommendation will clarify the exact role of the Inspection Unit regarding agency inspections.

Complaint handling. The program review committee staff examined complaints filed with the Inspection Unit from October 1987 through July 1989 by agencies dissatisfied with performance of either private vendors or the Bureau of Purchases's Central Warehouse. During this time, over 5,000 contracts were awarded. It should also be noted that, as of May 1989, a new complaint logging system was established and the committee reviewed only a summation of the complaints from that period on, and not the actual complaints.

According to the unit's records, 98 complaints were received over the 22-month period. The committee examined the different actions taken by the unit to resolve the complaints and the results are shown in Table VII-4.

As the table depicts, it was unable to be determined what action was taken in 19 percent (19) of the complaints examined, and on 12 occasions the inspectors found no grounds for the complaint. Where resolutions could be ascertained, the most frequent actions taken included: product replacement with the same product; referring the complaint to a buyer for resolution; or resolving the complaint by using a method other than those listed in the table.

As previously mentioned, between October 1987 and July 1989, over 5,000 contracts were awarded by the Bureau of Purchases. When comparing the number of complaints with the total number of awarded contracts, it's equivalent to 1 complaint for every 51 contracts. Furthermore, since contracts can involve agencies issuing multiple purchase orders, the ratio of complaints to purchase orders is even smaller than complaints to contracts. For example, in fiscal year 1988-89, there were 73 written complaints to an estimated 100,000 purchase orders making the ratio of 1 complaint for every 1,370 purchase orders.

Based on the low number of complaints to contracts, and more importantly, complaints to purchase orders, the program review committee believes vendor performance to be very good. This is also supported by the survey results in that over 80 percent purchasing officers responded that vendor problems occur 10 percent of the time or less.

Further, over 83 percent of the responding agencies noted that when vendor problems do occur, they are either "always" or "frequently resolved". No agency responded that their problems with vendor performance are "never" resolved. According to these results, the program review committee believes vendor performance problems occur very infrequently,

and when they do happen, the complaint resolution process is working satisfactorily.

Table VII-4. Agency complaint resolutions: October 1987 to July 1989.

<u>Action Taken</u>	<u>Frequency</u>	<u>Percent of Total</u>
Product replaced with same brand	13	13.3
Complaint referred to buyer	13	13.3
No grounds found for complaint	12	12.2
Different brand of product sent as replacement	9	9.2
Vendor contacted: warned and/or fined	6	6.1
Complaint referred to advisory committee	4	4.0
Central Warehouse credit	3	3.1
Central Warehouse revised procedures due to complaint	3	3.1
Product or vendor removed from ABL	3	3.1
Other	13	13.3
Unknown	<u>19</u>	<u>19.3</u>
TOTAL	98	100.0

Source: LPR&IC Staff Analysis of Agency Complaints.

Oversight of Direct Purchase Authority by the Bureau

Direct purchase authorities (DPA) permit state agencies to purchase commodities or services within specified price limits directly from vendors without prior approval of the Bureau of Purchases. During its performance audit, the program review committee reviewed this direct purchasing auth-

ority for types of commodities and services covered, price limits, and restrictions or waivers to the bureau's competitive bidding process which is usually used when making purchases. Based on this review, the findings and recommendations relate to both the Bureau of Purchases and the comptroller's office.

The most frequently used authority, DPA #1-G as previously illustrated in Table III-1, allows agencies to make purchases under \$600 unless the commodities or services bought are presently under contract or stocked in the Central Warehouse. To ensure competition, agencies are to solicit at least three price quotes before purchasing from the lowest, qualified vendor. The agency then submits a purchase order to the comptroller identifying the purchase is covered under a direct purchase authority.

Oversight by bureau. Agencies are not required to consult with the Bureau of Purchases before exercising their direct purchase authority and, subsequently, paperwork produced by an agency using this authority is not submitted to the bureau. However, the bureau is responsible for oversight of direct purchases, and it has the ability to suspend any agency abusing a DPA.

According to the bureau, some agencies have DPA forms for entering information about the vendors they solicited for quotes, product specifications, chosen vendor, and other pertinent data. This form is completed before the purchase order is sent to the comptroller. The form is not sent to the bureau. The bureau can receive copies of the purchase orders upon request, and does so when there is suspected misuse of the DPA.

The committee found that the Bureau of Purchases, which is responsible for overseeing direct purchases, is lacking the proper control to fulfill this function. Since state agencies are not required to provide the bureau with any accounting of their direct purchases, the only source of that information is from a report issued by the comptroller's Office. The program review committee therefore, believes that a potential for abuse exists within the system.

To enable the bureau to continually and successfully maintain proper oversight of direct purchases by agencies, the committee recommends that the bureau develop a DPA form similar to those presently used by particular state agencies. This form should be used by all agencies when buying under a direct purchase authority, and the agencies should be required to maintain these forms on file. Moreover, it is recommended that the Bureau of Purchases establish a schedule to audit a random sample of DPA forms, and investigate all discrepancies for possible abuse.

Under present bureau policy, in order to utilize its direct purchasing authority an agency must obtain price quotes from at least three different vendors. The lowest-priced, qualified vendor is to be selected. The committee's recommendation would not change this policy. However, agencies would be required to maintain this information on the specified form and submit these forms when requested by the bureau for audit purposes.

The form would provide information about the commodity or service to be purchased, specifications, names, addresses, and price quotes of the three vendors solicited, and reasons why the agency purchased from a particular vendor. The bureau would also be able to ensure that agencies are not purchasing items that are stocked in the Central warehouse or bought under an existing contract.

Periodic audits by the bureau would not limit agencies' autonomy or decision-making ability because the form would not require bureau review or approval before a direct purchase could be transacted. The bureau does have some leverage over agencies' autonomy in that it can suspend or withdraw an agency's direct purchasing authority. However, the form would only provide the bureau with the information that is necessary to audit an agency's purchasing practices.

Comptroller DPA report. In the current direct purchasing procedure, after commodities or services are bought the purchases are reviewed by the bureau, and the state auditors during their scheduled agency audits. To assist in the bureau's review, the comptroller's office issues an Excessive DPA Activity report at the end of each quarter outlining excessive direct purchases by state agencies. Excessive direct purchasing is defined as multiple purchases, usually under \$600, made from the same vendor by an agency during a quarter. The report lists the agency, vendor, invoice number, purchase amount, and the date payment was posted.

When the bureau identifies a possible misuse of an agency's direct purchasing authority, it requests all relevant purchase orders for inspection. A determination of misuse or correct use of a DPA is made by the bureau. If it is decided that the agency misused its authority, that agency's DPA is suspended -- usually for 90 days.

The committee found that the comptroller's report does not provide adequate information for the bureau to use in its required review of direct purchase authorities. The committee believes that if the report was to contain additional information, it would be more helpful to the bureau. Also, it was found that the report contains information that is not related to the direct purchasing authority of agencies.

Since the comptroller's office has no role in the oversight or review of direct purchases by state agencies, the committee believes that it would be beneficial to the Bureau of Purchases if the comptroller presented information contained in the report in a manner that aids the bureau's review process. The report presently lists each agency's total dollar value spent per vendor. This is not a factor in determining misuse of a DPA, especially DPA #1-G, because the review for abuse should be based on the total dollar value per commodity group, not vendor.

Secondly, the program review committee found that the comptroller's report contains information that is not related to state agencies' direct purchasing authority. The report is presented as a listing of excessive purchases under a direct purchase authority by agencies. However, in actuality the report is a listing of all purchases under \$600, including DPA and contractual purchases deemed to be excessive by the comptroller. Those purchases made within the purview of an existing contract, especially service or maintenance contracts, are included in the report. The comptroller does not review all purchase orders under \$600 to determine if it is a direct purchase or a purchase pursuant to a contract.

To assist the Bureau of Purchases in its oversight role, the program review committee recommends that the comptroller add to its Excessive Direct Purchase Authority report a description of the commodity purchased. Moreover, this report should contain only that information on DPAs.

This additional information would make the report more valuable and informative to the Bureau of Purchases. During its audit of random DPA forms, as previously recommended, the bureau would have additional information to use for comparison and to aid in the investigation of suspected abuse of direct purchases.

DPA price limits. As discussed earlier in the Procurement Section, and shown in Table III-1, direct purchase authorities have price limits ranging from \$600 to \$10,000. The committee found the price limits are acceptable, and that state agencies can operate effectively within the present guidelines. Therefore, Legislative Program Review and Investigations Committee believes that the price limits for DPAs should not be raised.

Raising the price limits of direct purchase authorities would effectively wipe-out competition among vendors by allowing agencies to make larger purchases directly from particular vendors. Agencies would no longer have to rely on the Bureau of Purchases's competitive bidding process.

In addition to their direct purchasing authority, agencies have another option besides using the competitive bidding process. An agency can submit a request to the bureau to permit the agency to make a purchase from a vendor for an amount up to \$3,000. However, the agency must submit price quotes from at least three vendors to obtain approval from the bureau. The purchase does not have to be for an emergency, and the only applicable restrictions are that the goods or services are not stocked in the Central Warehouse or currently being bought under an existing contract.

Exception To Procurement Process

State agencies are exempt from following the bureau's competitive bidding process when purchasing certain contractual services such as advertising, subscriptions, licenses, freight cartage and express transportation, and other operating expenses that are not covered under an existing contract. These purchases are similar to the direct purchasing authority exercised by state agencies, in that the purchase must be based on competitive prices from at least three vendors.

Although the bureau defines these purchases as similar to DPAs, it has not outlined a procedure to use when making such a purchase, or the circumstances when these types of purchases can be made. There are no price limits set for agencies under the exception category. The contractual services covered are not clearly defined, and cover a wide range of services.

The Legislative Program Review and Investigations Committee found the types of commodities and services covered and the procedure for making purchases under the exception policy are vague. The committee therefore recommends that the commodities and services presently purchased under the competitive bidding exception rule be specifically defined in statute and bureau regulations, and added as one or more categories of the DPAs allowed for state agencies.

Presently, there are 13 categories of direct purchasing authority. The types of services listed under purchase exceptions can become new categories or additions to present categories. The bureau should further define the commodities and services covered. Price limits for each type of service should also be set.

Central Warehouse

The program review committee focused on examining the following main areas of the bureau's Central Warehouse: 1) performance; 2) automation; and 3) special exemptions to warehouse processes.

Performance. The committee surveyed agencies regarding the performance of the Central Warehouse. Fifty agencies responded to the survey of which over two-thirds (69 percent) confirmed that they use the warehouse because it is considered cost-effective. More than half (52 percent) of the agencies responded that they utilize the warehouse because of limited storage space at the respective agency.

Despite the warehouse being viewed as cost-effective, only 38 percent of the survey responses indicated that it is easier to acquire commodities from the warehouse than to have the agency make actual purchases. Although all agencies reported utilizing the warehouse, 20 percent responded that the bureau requires them to or otherwise be in violation of state purchasing guidelines.

For the most part, the responses rated warehouse performance favorably. Sixty-one percent of the agencies said that adherence to the warehouse's five-week shipping schedule was "adequate" to "excellent". Ninety percent of the agencies responded that warehouse performance is "adequate" to "excellent" in delivering the correct items. When wrong shipments are delivered, 84 percent believe the warehouse is again at least "adequate" in correcting the delivery of incorrect items.

Almost three-fourths of the agencies queried considered the quality of warehouse substitutions to be "acceptable", however, prior notice to agencies regarding substitutions is considered at least "adequate" by 54 percent of the respondents and "inadequate" or "poor" by 46 percent. Survey results also show that 84 percent of the agencies find the warehouse responds well to agency problems.

Automation. The Central Warehouse is currently functioning on fragmented computer resources. It has the capability of electronically tracking information from agencies' orders as to what is being ordered, if substitutions are made, and if the order has been delivered. However, these functions are separate and limited. Similarly, the warehouse's computer resources cannot provide aggregated information for immediate and efficient examination.

Currently, warehouse automation produces daily stock reports detailing activity of warehouse items, and weekly receiving reports showing what is delivered to the warehouse. However, any analysis of this information is still performed manually. Due to this lack of an integrated or updated computer system, the committee believes the warehouse's ability to accurately track stock turnover and examine consumer trends is greatly hindered.

The warehouse is aware of the limitations of its present computer resources and has recently established a study group to review its automation efforts. This is an important first step and the efforts of this study group should be to seriously examine the warehouse's present automation system.

Based on these observations, the program review committee recommends that the Central Warehouse, in conjunction with the Bureau of Purchases, conduct a needs assessment test necessary for the integration and updating of its present computer resources and system. In addition, the committee recommends that the revised system be incorporated with the new computer resources planned for the bureau.

An updated and integrated automation system will eliminate the time-consuming, manual method now utilized to analyze and compare important data. An updated system will also provide the warehouse with a more efficient method for analysis. Furthermore, integration of bureau and warehouse computer resources will allow the Bureau of Purchases to access warehouse information.

Special exemptions to warehouse process. In certain instances, exemptions to the normal operating process are given by the Central Warehouse. The committee found that a policy exists whereby a special delivery charge of \$30 is assessed for small orders placed by group homes operated by the state and not to privately-operated homes permitted to utilize warehouse services. Bureau officials were not able to provide an explanation of the historical background or rationale for this policy, except to say that it has been done for approximately the last four or five years.

Therefore, Legislative Program Review and Investigations Committee recommends that the Bureau of Purchases review its current policy regarding the application of a special delivery fee for small orders assembled for state-owned group homes and not for privately-owned group homes. If the bureau determines this fee is necessary, it shall charge the fee to all group homes, state and private, which require extra handling to assemble their orders.

The program review committee believes the current policy is not fair and should be re-examined by the bureau to determine its appropriateness. The committee further believes that if the bureau's policy is to charge a fee for the added work necessary to assemble a special order, that fee should be charged to all agencies, state or private, requiring such additional work.

A second example of where the program review committee found exemptions are made to warehouse policies is in requiring proof that non-profit agencies using warehouse services receive at least 60 percent of their funding from the

state or federal government sources. Presently, 73 non-profit agencies currently utilize warehouse services.

In order to use warehouse services, non-profit agencies must obtain written authorization from the bureau and submit an operating statement showing their funding sources. It was found that after the initial authorization is granted, no subsequent check is made to determine if the non-profit agency maintains its required level of public funding.

The program review committee, therefore, recommends that the Bureau of Purchases require non-profit agencies doing business with the Central Warehouse to annually provide the bureau with proof that the required level of public funding is being achieved.

This recommendation ensures that the non-profit agencies utilizing the services, and volume discounts, of the warehouse follow the established funding guidelines. Since no check is currently done, except at the initial application phase, the committee believes this recommendation will better enable the bureau to monitor agencies that use the Central Warehouse.

Surplus Property

The state's Surplus Property Program operates a retail store where surplus property, not bought by state agencies or municipalities, is sold to the general public. The program's current policy is that all property not sold during a one-year period is to be destroyed or rendered unusable and then properly disposed of.

There are currently no regulations or policies governing the donation of such property to charity or non-profit organizations. The committee believes that a majority of the surplus property eventually destroyed could be recycled to help needy persons or organizations within the state. There would be no financial loss to the state or the Bureau of Purchases in that, under present policy, the property does not provide a financial gain anyway. However, other organizations and state citizens could benefit from the donation of such property.

Therefore, the Legislative Program Review and Investigations Committee recommends that C.G.S. Title 4a, Chapter 58, be expanded to include the donation of surplus property to charity and non-profit organizations. The statute should include provisions ensuring that such property is first offered for sale to state agencies and municipalities, then stocked in the retail store for a period of one year, and finally offered sale to the general public before being donated.

The bureau would be responsible for developing a list of organizations that meet non-profit status or charity entities, and reviewing that list. The bureau would also be responsible for developing an inventory system ensuring that all surplus property was properly offered for sale prior to donation.

The committee also recommends that a recordkeeping procedure be developed that would account for donated surplus property.

The information collected should include the type of property donated, agency that declared the property surplus, dates property offered for sale, date property was donated, organization that received property; and approximate value of the property. The bureau should include any other pertinent data in its recordkeeping procedure that would assist in reviewing or analyzing surplus property donation.

Training

The program review committee believes that basic and in-service training for personnel involved in the purchasing process is vital to the proper operation of the system. The committee found a lack of formalized training for bureau and agency staff involved in the procurement process; particularly bureau buyers, agency purchasing officers, inspectors, and personnel responsible for the initial receiving of commodities. Any training received is gained primarily from "hands-on" experience.

The committee learned that the Bureau of Purchases has recently begun to send buyers from the Procurement Section out to individual agencies to assist purchasing officers in solving any problems or questions they may have regarding the purchasing system. Each buyer is to visit two agencies per month. However, there may be a long delay before a buyer ever reaches a particular agency.

In addition to this initiative, a statewide Purchasing Officers Council has been developed whereby agency purchasing officers attend periodic meetings held by the bureau to discuss their concerns and learn about policy changes. Some in-service courses are also offered yearly by the state.

The committee also found that no training exists for persons responsible for inspecting goods and services received by the state; either the bureau's inspectors, or bureau or agency commodity-receiving personnel. The committee believes that training for inspectors and staff charged with receiving deliveries is important. Such training helps to ensure that the quality and quantity of commodities received matches exactly with what was originally specified in a purchase contract.

A survey of agency purchasing officers (Appendix B) conducted by the program review committee queried the officers as to their training prior to becoming a purchasing officer, and the quality of in-service training received after they obtained their current position. The survey revealed that a majority of the respondents believe the amount of training they receive is not adequate. In fact, the results show 61 percent (27) believed the training for becoming a purchasing officer was "below adequate" or "poor". While 54 percent (24) believed the in-service training available was also "below adequate" or "poor".

Therefore, the program review committee recommends that the Bureau of Purchases develop a formalized training program for new and existing buyers, agency purchasing officers, bureau inspectors, Central Warehouse receiving personnel, and individual agency receiving personnel. The training program shall be developed by January 1, 1991.

The program review committee believes that key personnel involved in the procurement process should be adequately prepared to handle all relevant aspects of the purchasing system that pertain to them. This recommendation will help serve to properly train such individuals, as well as enable them to maintain an on-going understanding of changes in the procurement system and purchasing practices.

Regulations

Section 4a-52 of the Connecticut General Statutes requires the Commissioner of the Department of Administrative Services to adopt regulations governing certain policies and procedures of the Bureau of Purchases. The statute, dating back to the inception of a purchasing process in 1937, however does not specify by what date such regulations are to be completed.

During the review of the Bureau of Purchases, the program review committee found that no regulations currently exist as required by law. At present, the bureau's policies and procedures are spelled out in a purchasing manual which is made available to interested persons including agencies and vendors. However, the manual's policies do not have same legal authority as do regulations. For example, in the area of vendor suspension or disqualification, the committee was informed that vendors could easily contend the bureau has no authority to take such action because no regulations are in place. In fact, a few years ago a vendor successfully challenged the bureau concerning a suspension. It was determined that the suspension was not proper because no formal authority or process existed regarding vendor suspension or disqualification.

The department recognizes that it has not developed regulations and the need for regulations to be in place. It is now in the process of developing purchasing regulations. The committee believes regulations are vital to the operation of the Bureau of Purchases and should be drafted expeditiously.

Therefore, the program review committee recommends that the Department of Administrative Services adopt regulations for the Bureau of Purchases by July 1, 1990.

By adopting regulations, not only will the department fulfill its statutory requirement, but the bureau will be better able to understand legal challenges. Formalizing these policies in regulation form will also clarify to both purchasing staff and vendors what the bureau's policies and procedures are regarding different aspects of the procurement system.

Survey of Purchasing Officers for State Agencies

As part of the performance audit of the Department of Administrative Services' Bureau of Purchases, a survey of all purchasing officers (Appendix B) currently listed with the bureau was conducted. The survey solicited information regarding the procurement process, agency policy and procedure for resolving problems with vendor performance, and evaluation of the bureau's Central Warehouse. Of the 114 questionnaires mailed, 44 percent (50) were completed and returned.

General agency information. Out of the 50 surveys submitted, two-thirds of the agencies reported that they had a separate purchasing unit, with the majority of those units staffed by approximately 2 members. In addition, 53 percent of the purchasing officers noted that they have been working for the state less than five years in their present capacity, and 63 percent have been with the agency that they now work for less than five years.

With regard to training, the survey results show that the purchasing officers believe that their training prior to becoming a purchasing officer, and their in-service training after they became a purchasing officer, is "less than adequate" -- 61 percent rated initial training as "poor", and 54 percent rated in-service training as "poor".

Procurement process. When comparing the state's definition of purchasing with their own agency's definition, 82 percent of the respondents rated the state's definition as "good", while 66 percent rated their agency's definition as "adequate". Furthermore, 84 percent of the purchasing

officers indicated that good communication exists between their agency and the bureau regarding changes in policy and/or procedure.

Although processing time may vary for different commodities, the majority of the respondents (65 percent) estimated that it takes between one and five days to complete a purchase requisition and send it to the Bureau of Purchases; 16 percent between 6 and 10 days; and 18 percent said it takes more than 10 days.

Once a requisition is received, the Bureau of Purchases can make modifications. Table VII-5 illustrates a breakdown of the various reasons a requisition may be modified.

As shown in the table, most modifications are made because the agency asked that no substitutions be made for the requested item. Requisitions are also modified if information is missing on the requisition form, or the requested item is already covered under an existing contract. Furthermore, the survey results show that a requisition is almost never modified because it is "not understandable" or has "unreasonable specifications".

Seventy-one percent of the agencies reported that adequate notification is given by the bureau if requisition modifications are to be made. In regard to the amount of time the Bureau of Purchases takes once a requisition is received until a contract award is made, 58 percent of the purchasing officers considered the time to be reasonable.

Inspections and vendor performance problems. When asked who is responsible for inspecting deliveries made by vendors, the agencies, on average, responded that in 50 percent of the time it is ultimately the personnel using the product or service followed by "other" agency employees, such as receiving clerks, in 25 percent of the time. Purchasing officers and/or their staff inspect vendor deliveries in only 20 percent of the time.

The agencies also reported that problems with vendor performance occur in less than 10 percent of the time, and are resolved 95 percent of the time when they do occur. In general, if vendor performance is not in compliance with contract terms and conditions, the "agency" handles the problem on its own (80 percent), or occasionally will "contact a bureau inspector or buyer" (10 percent). The results also indicated that "other" methods are used to resolve vendor problems (4 percent), but rarely will the agency "resort to legal means" (1 percent). According to the results, less than five percent of the vendor performance problems "remain unresolved".

Table VII-5. Reasons for Requisition Modifications.
(In percents)

<u>Reason For Modification</u>	<u>Always</u>	<u>Sometimes</u>	<u>Rarely</u>	<u>Never</u>
Inadequate description of item	0%	33%	30%	36%
Requisition not understandable	0	3	24	73
No substitution requisition; more detail needed	0	37	31	31
Requested item covered in existing contract	0	22	42	36
Unreasonable specifications	0	18	18	64
Missing information	3	29	51	17

Source: LPR&IC Staff Analysis of Purchasing Officer Survey.

Central Warehouse. All 50 agencies reported that they utilize the Central Warehouse for various reasons, and Table VII-6 illustrates the responses.

As the table depicts, the main reasons agencies utilize the Central Warehouse are that it is less costly to use the services than to make purchases on their own (68 percent), and that agency storage space is limited (52 percent). However, only 38 percent of the agencies noted that it was easier to acquire commodities from the warehouse than to have the agency make the purchases. Although it was not listed as a possible reason in the survey, one reason, mentioned by 20 percent of the agencies, was that in order to stay within purchasing guidelines the bureau required the agencies to use the warehouse.

With regard to the quality of warehouse services, the survey asked agencies to evaluate the various services provided by the warehouse. The agencies' evaluation of warehouse services are shown in Table VII-7.

Table VII-6. Reasons Agencies Use Central Warehouse.

<u>Reasons For Using Central Warehouse</u>	<u>Freq.</u>	<u>Percent</u>
Agency storage space is too limited	26	52
Less costly to use warehouse services than to make purchases on own	34	68
Easier to acquire commodities from warehouse than to have agency make purchases	19	38
Have done so in the past, no need to change	15	30
Bureau requires agency to use warehouse*	10	20

* Reason Not Listed in Survey; Separate Comment Made by Agencies.

Source: LPR&IC Staff Analysis of Survey.

Table VII-7. Agency Evaluation of Warehouse Services.
(In Percent)

<u>Warehouse Service</u>	<u>Excellent</u>	<u>Adequate</u>	<u>Poor</u>
Adheres to five-week shipping schedule	12%	49%	38%
Deliver correct items	20	70	10
Wrong deliveries corrected	18	66	16
Quality of substitute items	2	71	26
Notify agency of substitutions	7	47	46
Response to problems in general	18	66	16

Source: LPR&IC Staff Analysis of Purchasing Officer Survey.

Overall, the agencies rated warehouse services favorably. For example, most of the agencies (49 percent) are satisfied with the warehouse's adherence to its five-week shipping schedule. Furthermore, 70 percent reported satisfaction with warehouse deliveries, and 66 percent indicated "adequate" correction of wrong deliveries. Seventy-one percent rated the quality of warehouse substitutions as "acceptable", however, the agencies appeared divided concerning warehouse notification of the agency regarding order substitutions. Forty-seven percent reported that when substitutions are made "adequate" notice is given, while 46 percent consider the notification "less than adequate". Nevertheless, 66 percent of the agencies indicated that the warehouse, in general, "responds well" to agency problems.

APPENDIX A

SURVEY OF BUREAU OF PURCHASES BUYERS

The Legislative Program Review and Investigations Committee surveyed the Bureau of Purchases's buyers regarding their practices in extending contracts, and their opinions. All of the buyers responded. The following survey contains the total number of buyers responding to each question; in most questions, the actual numbers have been used instead of percentages due to the small sample surveyed.

N=10

1. Of all contracts extended by you over the last three fiscal years (86-89), what percentage of the time did the following sources initiate the request for an extension?

Buyer	<u>51.3</u> %
User Agency	<u>46.0</u> %
Vendor	<u>2.7</u> %

2. When deciding to extend a contract, what factors are considered? Circle the appropriate response(s).

	Always	Sometimes	Never		
	1	2	3	4	5
A. Extension price is the same or lower than original contract price	6	3	1	0	0
B. Market conditions indicate rise in prices or unavailability of product	6	3	0	0	0
C. Vendor and/or product has performed well	7	3	0	0	0
D. Vendor is known to be the sole source of a product or service	4	3	1	2	0
E. Contract is too large to continually re-bid	0	1	1	2	6
F. Other _____					

3. When preparing a contract extension, are vendors, other than the vendor under contract, contacted and given the opportunity to submit price quotes?

Always	Sometimes	Never
1	2	3
1	4	3
1		1
		1

4. If other vendors are contacted by telephone, how many vendors per each contract extension are contacted (on average)? Check appropriate range.

0	0
1-3	10
Over 3	0

5. To what extent do you receive information on the performance of a product, service, or vendor under contract before an extension is awarded? If answer is never, skip to question 7.

Always	Sometimes	Never
1	2	3
3	2	3
		2
		0

6. If the performance information is received, how it is solicited? Circle appropriate response(s).

	Always	Sometimes	Never
	1	2	3
	4	5	
A. Buyer contacts the agency	3	4	3
B. Inspector provides information	0	2	3
C. Advisory committee is consulted	0	2	0
D. Buyer contacts the Central Warehouse	2	2	2
E. Complaints by agency are received buyer	3	4	2

F. Positive performance reports issued by user agency

1 1 2 4 1

G. Other _____

7. What percentage of all contracts awarded, for which you have been the assigned buyer, have been extended during the following fiscal years?

FY 86-87 24.4% * These figures represent the average among all ten buyers. See Table 1
FY 87-88 19.9% in the report for individual buyers' statistics.
FY 88-89 14.9%

8. Do you think the present system of extending contracts is effective in terms of obtaining the best price for quality products and/or services?

Yes 10 No 0

9. Do you think the present system of extending contracts is helpful in assisting the buyers to control their workload?

Yes 6 No 4

APPENDIX B

SURVEY OF PURCHASING OFFICERS

The Legislative Program Review and Investigations Committee surveyed all agency purchasing officers listed with the Bureau of Purchases regarding the procurement process, agency policies and procedures for resolving problems with vendor performance, and evaluation of the bureau's Central Warehouse. Of the 114 questionnaires mailed, 50 were completed and returned to the committee.

N= 50

Agency Code XXX

1. What is the approximate number of employees in your agency? range 7 - 5,000

2. Does your agency have a separate purchasing unit?

Yes 33 (66%) No 17 (34%)

If yes, how many staff are assigned to the unit?

1 or 2 staff 18 (54%)
 Between 3-5 9 (27%)
 More than 5 6 (18%)

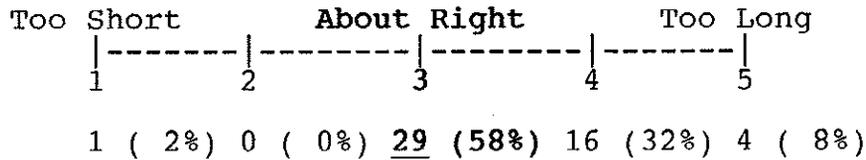
3. How long have you been a purchasing officer?

	With this agency?	With the state?
Less than 5 years	<u>31</u> (63%)	<u>22</u> (53%)
Between 6-10 years	<u>13</u> (26%)	<u>14</u> (34%)
More than 10 years	<u>5</u> (10%)	<u>6</u> (13%)

4. Using the scale below, please rate how clearly you think the purchasing process is defined at each level given:

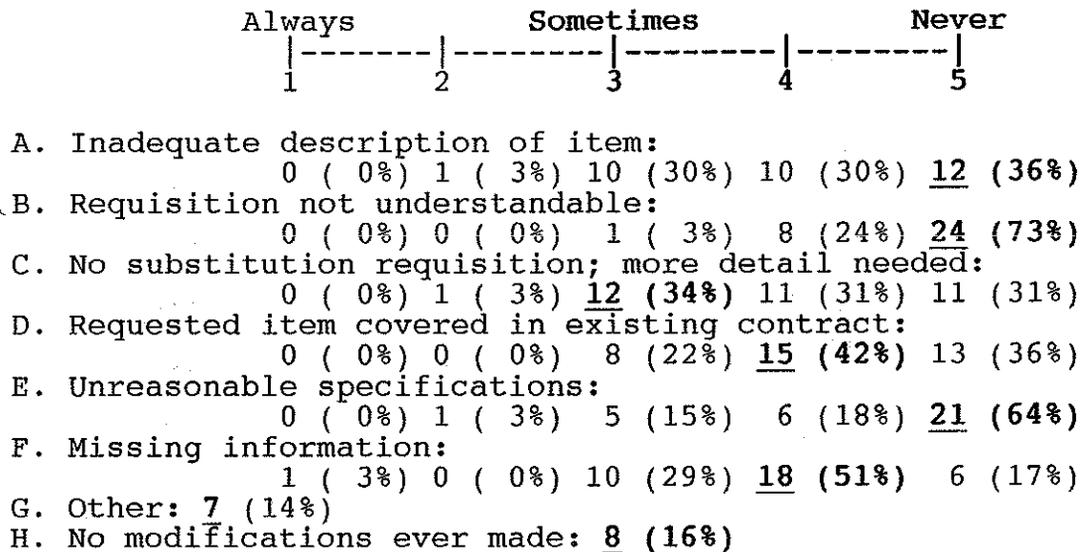
	Excellent	Adequate		Poor	
	1	2	3	4	5
Agency level:	6 (12%)	16 (32%)	<u>17</u> (34%)	7 (14%)	4 (8%)
State level:	3 (6%)	<u>21</u> (43%)	<u>19</u> (39%)	4 (8%)	2 (4%)

5. Do you think the time it takes once a requisition is received by the Bureau of Purchases until a contract award is made is:

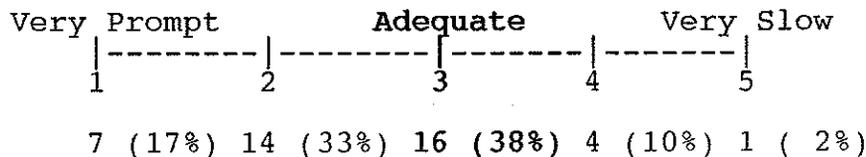


6. Please indicate the average number of days it takes your agency to complete a purchase requisition and send it to the Bureau of Purchases: **Between 1-5 days** 31 (65%)
 Between 6-10 days 8 (16%)
 More than 10 days 9 (18%)

7. If the bureau has modified any of your agency's purchase requisitions, what have been the reasons?



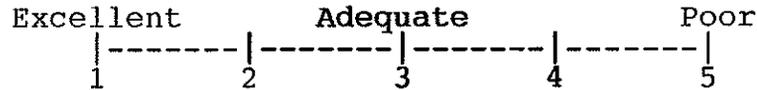
8. Please rate how timely the Bureau of Purchases is in notifying your agency of a requisition modification?



9. Why does your agency use the bureau's Central Warehouse service?
 A. Agency storage space too limited (52%)
 B. Less costly to use warehouse services than to make purchases on own (68%)

- C. Easier to acquire commodities from warehouse than to have agency make purchases (38%)
- D. Have done so in past, no need to change (30%)
- E. Agency does not use warehouse services (0%)

10. Using the scale below, please rate the following as they pertain to Central Warehouse services:



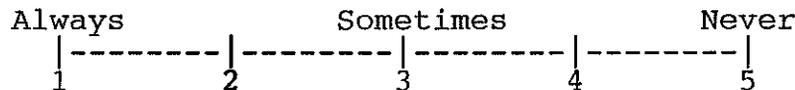
- A. Adherence to five-week shipping schedule:
6 (12%) 5 (10%) 19 (39%) 10 (20%) 9 (18%)
- B. Deliver correct items:
10 (20%) 22 (44%) 13 (26%) 5 (10%) 0 (0%)
- C. Wrong deliveries corrected:
9 (18%) 14 (28%) 19 (38%) 6 (12%) 2 (4%)
- D. Quality of substitute items:
1 (2%) 9 (21%) 21 (50%) 6 (14%) 5 (12%)
- E. Notify agency of substitutions:
3 (7%) 11 (27%) 8 (20%) 12 (29%) 7 (17%)
- F. Response to problems in general:
9 (18%) 13 (26%) 20 (40%) 5 (10%) 3 (6%)

11. What percentage of the time is the following person(s) responsible for inspecting deliveries made by vendors?

- A. Purchasing officer and/or his/her staff: (20%)
- B. Personnel using product or service: (50%)
- C. Other: (25%)

12. What percentage of the time does your agency encounter problems with vendor performance? 10% or less 33 (81%)
More than 10% 8 (18%)

13. Using the scale below, please rate how often your problems with vendor performance are resolved:

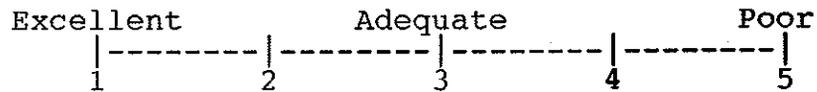


13 (31%) 22 (52%) 5 (12%) 2 (5%) 0 (0%)

14. If vendor performance is not according to contract terms and conditions, what percentage of the time does your agency use the following methods?

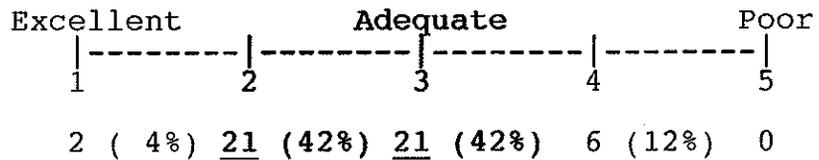
- A. Solve problem on own: (80%)
- B. Contact bureau inspector or buyer: (10%)
- C. Legal means (i.e. attorney general's office): (1%)
- D. Other methods: (4%)
- E. Problem left unresolved: (5%)

15. Please use the scale below to answer questions relating to the training of purchasing officers:



- A. Training prior to becoming a purchasing officer?
 1 (2%) 6 (14%) 10 (23%) 16 (36%) 11 (25%)
- B. In-service training after becoming purchasing officer?
 3 (7%) 9 (20%) 9 (20%) 12 (27%) 12 (27%)

16. Please rate how well the Bureau of Purchases communicates procedure and/or policy changes to your agency:



17. If you have any suggestions on how to improve the state's purchasing system, please explain on back or attach separate sheet.

APPENDIX C

AGENCY RESPONSE



STATE OF CONNECTICUT
DEPARTMENT OF ADMINISTRATIVE SERVICES



September 21, 1989

Legislative Program Review and
Investigations Committee
State Capitol, Room 506
Hartford, Connecticut 06106

Attn: Mr. Michael L. Nauer

Dear Mr. Nauer: *Mike*

This is to acknowledge receipt and to thank you for the advance copy of your findings and recommendations relating to the performance audit at the Bureau of Purchases.

We feel your staff conducted a comprehensive review of the Procurement process and, while we feel there may be minor inconsistencies in some interpretations of our Policies and Procedures, we acknowledge and support the recommendation you will present to the Committee.

I have directed my staff to take the appropriate actions to implement the recommendations. I only hope you appreciate that our compliance may not in all cases be immediate as we must balance our actions with current staffing constraints and our commitment to customer satisfaction.

We wish to commend Spencer Cain and his staff for the manner in which they conducted themselves during the audit.

Sincerely,

Stephen J. Negri
Commissioner

Phone :

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