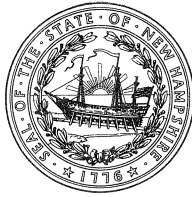


STATE OF NEW HAMPSHIRE
DEPARTMENT OF ADMINISTRATIVE SERVICES

MANAGEMENT REVIEW OF THE
POLICIES AND PROCEDURES OF THE
DIVISION OF PLANT AND PROPERTY MANAGEMENT



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TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have conducted a MANAGEMENT REVIEW of the POLICIES AND PROCEDURES of the Division of Plant and Property Management. Our review included the procedures currently practiced with regard to the Division's:

- organizational structure and authority,
- purchasing procedures,
- quality assurance policies,
- inventory management, and,
- property management.

The primary intent of our review was to study the operating policies and procedures of the State's purchasing department and to provide recommendations which would improve its accountability, increase its efficiencies and enhance its economies associated with its public procurement of goods and services.

This report results from our review of the various aspects of the State of New Hampshire's purchasing activities and is intended solely to inform the Legislative Fiscal Committee of our findings from that review.

Office of the Legislative Budget Assistant
OFFICE OF THE LEGISLATIVE BUDGET ASSISTANT

June 20, 1984

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INTRODUCTION

GENERAL

The Division of Plant and Property Management is the State's Central purchasing agency. It is one of several State agencies with the general responsibility for acting on behalf of all components of State government. In its primary procurement role, it directly affects the quality and timeliness of public services rendered by other State governmental departments and agencies. With this responsibility, it is therefore important that maximum efficiency and effectiveness in the purchasing function be achieved and maintained.

RESPONSIBILITIES

Due to its role in the operations of State government, the Division becomes the State's primary link to the business community. In addition, public confidence is developed and influenced by the Division's general integrity, ethics and professionalism in accomplishing its procurement duties. In a monetary sense, the Division of Plant and Property Management is the only State agency with the underlying mandate to decrease the general cost of operation of government through savings derived from effective economical purchasing, efficiently performed.

In possessing such wide responsibilities, the Division is sometimes required to mediate between the opinions and desires of a requesting agency and the representations and claims of the providing vendors who are in search of transacting a sale. Throughout each mediatory situation, the Division must constantly be cognizant of its primary objectives of conserving the State government's public funds for the ultimate benefit of the State's taxpayers.

GOALS OF PUBLIC PURCHASING

Considering the growing nationwide concern about the cost of government, it has become vividly evident that public purchasing is no longer merely a "buying" function. The entire concept of public purchasing now entails the responsibility of control, with cost reduction as a primary objective. This "purchasing" concept also encompasses the subsequent overall management of already purchased materials and supply inventories. The Divisions final responsibility, after it has procured the goods and managed the inventories, is governing the anticipated use and ultimate disposal by each State agency.

SUMMARY

The purchasing function, as it has evolved from a once "buying event", now involves buying the right quality at the right quantity at the right time at the right price from the right supplier in the most effective manner for ultimate overall economy. Specifically:

The right quality implies a responsibility for sound specifications, for standards, for value analysis, for testing and inspection, and for property utilization.

The right quantity at the right time implies a responsibility for planning and scheduling, for inventory management, for market analysis, and for the use of aids such as economic order quantity formulas.

The right price implies a responsibility for obtaining full and bona-fide competition, for evaluating vendors to arrive at maximum economy, for auditing supplier records as needed, and for working with user agencies and vendors to reduce costs.

The right supplier implies a responsibility for bidder qualification, for appropriate bonding and for vendor performance and evaluation.

The most effective manner implies a responsibility for effective operating rules and procedures, for personnel training, for form designs, for cost reduction and for using a variety of techniques such as terms contracts, scheduled purchases, warehousing and numerous automated procedures.¹

¹Council of State Governments, State and Local Government Purchasing (Lexington, 1983), p 15.

SCOPE OF MANAGEMENT REVIEW

The objectives of our management review of the Division of Plant and Property Management were:

- (1) to identify strengths and weaknesses within this Division with regards to purchasing, central warehousing, property and inventory management and other operating functions, and,
- (2) to offer recommendations which may lead to the improvement of the economies and efficiencies of the Division's functions.

To accomplish our objectives, we have segregated the operations of the Division of Plant and Property Management into four functional areas for review:

- I Organizational Structure and Authority
- II Purchasing Process: Policies and Procedures
- III Quality Assurance Standards
- IV Inventory and Property Management

For each of the identified areas, we have reviewed the applicable State statutes, regulations and procedures currently in use for both RSA compliance and overall operating efficiency and effectiveness.

We have also reviewed the practices employed by purchasing departments in other states and we have researched published and unpublished material dealing with the public procurement industry.

In addition, personnel at selected State agencies provided documentary base data and information relating to the current purchase and property procedures. Trade vendors and suppliers throughout New England were also polled for their observations and suggestions regarding past experiences with the Division of Plant and Property Management.

ORGANIZATIONAL STRUCTURE AND AUTHORITY

A reorganization of the Executive Branch of government , which encompasses the Division of Plant and Property Management, became effective on July 1, 1983. The goal of this legislation was to " . . . improve the coordination and management of state services by establishing clear lines of authority, responsibility,² and accountability for program implementation within the executive branch."²

A means of achieving this goal was to establish a Department of Administrative Services, with responsibilities for budgeting, pre-auditing, accounting, financial reporting, data processing, graphic services, property and physical plant management, risk management and general support services. Plant and Property Management is one Division of Administrative Services.

The Division of Plant and Property Management has direct responsibility for property and physical plant management, for general support services and for establishing and maintaining policies consistent with the goals of the reorganization. The Division of Plant and Property Management is a service agency comprised of three organizational units:

- the Bureau of Purchase and Property,
- the Bureau of General Services, and,
- the Bureau of Planning and Management.

Each unit has general and specific responsibilities designated by State statutes. Interactions between the three Bureaus of the Division, and the outside agencies utilizing their services, are governed by statute and by rules developed by the Division of Plant and Property Management that have been adopted and approved in accordance with RSA 541-A.

BUREAU OF PURCHASE AND PROPERTY

The Bureau of Purchase and Property is the central purchasing agency for the State of New Hampshire. In this procurement capacity, the Bureau is responsible for purchasing supplies, equipment, vehicles and services for all agencies not specifically exempt from centralized purchasing. The Bureau is vested

²New Hampshire State Legislature, Revised Statutes Annotated, 21-G:3, III 1983 Cumulative Supplement (Orford, N.H., 1983) p 220.

with the duties of developing specifications for purchase orders, and utilizing inspection and testing procedures to ensure that delivered goods that are received actually comply with originally stated specifications.

Property Management is a statutory responsibility requiring the maintenance of an inventory control over all State owned equipment as well as providing for the determination and classification of surplus property and the subsequent methods and alternatives for its disposal.

BUREAU OF PLANNING AND MANAGEMENT

Planning for physical plant, space needs and management is the responsibility of the Bureau of Planning and Management. Three major planning functions or control items that are required to effectively oversee the State's use of physical space are the maintaining of:

- an inventory of all space utilized by the State including rented and leased space,
- an analysis of the annual maintenance charges for all space, and
- projections dealing with anticipated space requirements necessary to meet the prospective needs of the State.

BUREAU OF GENERAL SERVICES

The Bureau of General Services is responsible for the actual periodic and regular maintenance of State owned buildings and grounds. Other support services provided by this Bureau include the maintenance of the centrex telephone system and the operation of the State government mail service, which involves approximately 10,000 pieces per week of metered mail plus the pickup, processing and delivery of the messenger mail service for over 100 State agencies.

ADMINISTRATIVE RULES

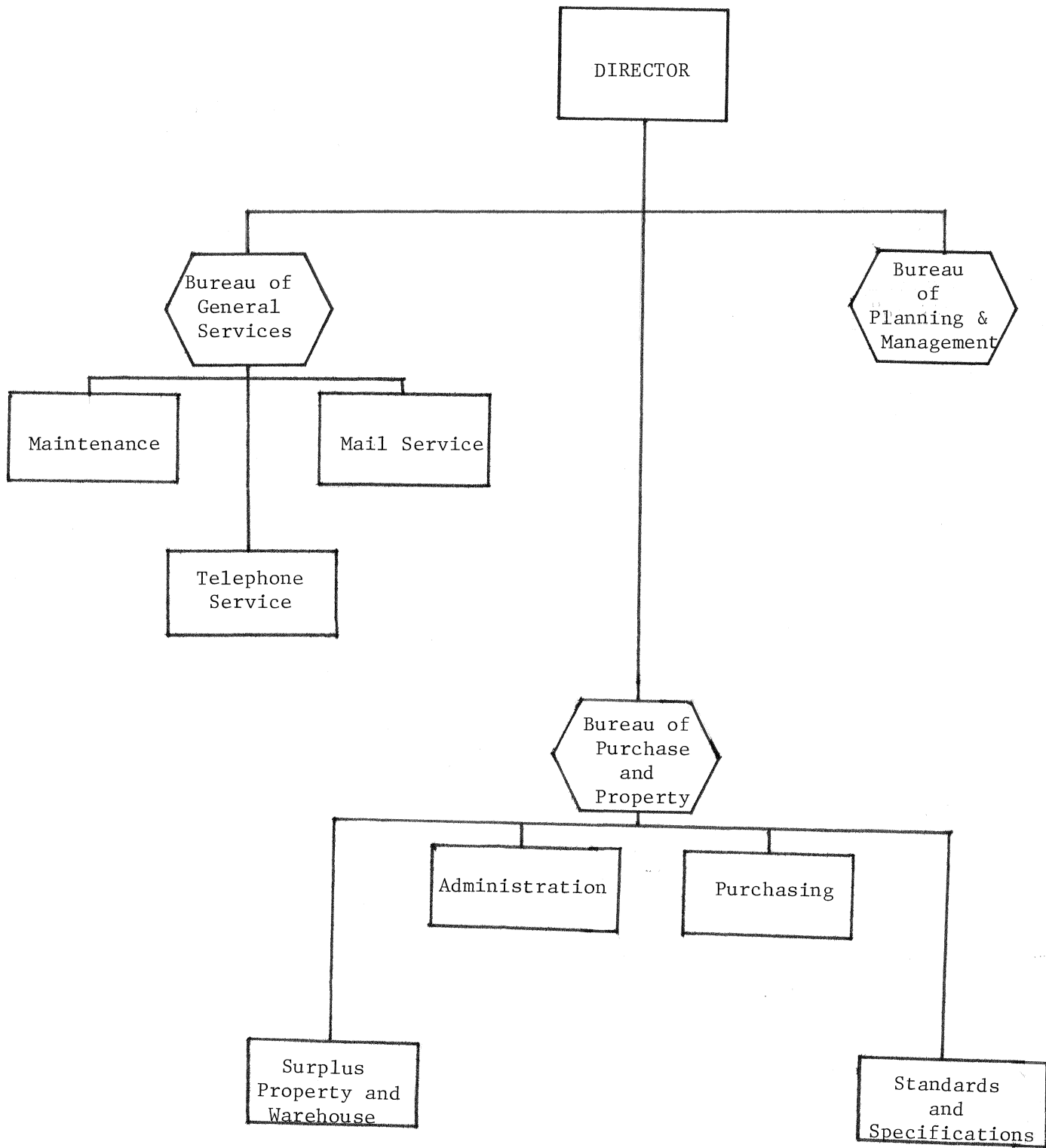
The operating administrative rules that govern the daily routine procedures of the Division of Plant and Property Management expired in January, 1984. Through June 15, 1984, while the rules were being reconstructed and reinstated, emergency rules, consisting of the State's Manual of Procedures, were in effect. On June 20, 1984 a public hearing was held concerning the proposed New Hampshire Purchasing Rules Manual. The Purchasing Rules Manual has become effective and has been approved by the Legislative Rules Committee. The new rules contain significant changes to several key areas of the previous purchasing and property management procedures. Areas affected by the new rules are summarized in Appendix A on page 31.

ORGANIZATIONAL CHART

DEPARTMENT OF ADMINISTRATIVE SERVICES

DIVISION OF PLANT AND PROPERTY MANAGEMENT

AS OF JUNE 20, 1984



II

PURCHASING PROCESS: POLICIES AND PROCEDURES

Unless specifically exempt from centralized purchasing, all purchases of supplies, equipment, vehicles and services are made through the Division of Plant and Property Management. Statutory regulations and general procedures safeguard the expenditure of State funds. Such regulations and procedures are aimed at ensuring that purchases are in the best interest of the State and that competition is promoted by seeking to obtain the lowest possible price for goods conforming to established specifications. For the purchasing program to be most effective, cooperation and coordination is necessary between:

- the Division of Plant and Property Management,
- authorities charged with monitoring the acquisition of certain commodities (vehicles, equipment, professional services), and,
- agencies utilizing the purchasing expertise of the Division.

The primary tenet of the State purchasing function is to acquire goods and services at a price which is in the best interest of the State. The acquisition process is threefold, and involves:

- Planning and Scheduling items and services to be procured,
- Soliciting bids and quotes from responsible vendors, and,
- Evaluating and awarding legally binding contracts.

PLANNING AND SCHEDULING

Most operating decisions made within State government affect the efficiencies and effectiveness of the Divisions purchasing and materials management functions, and conversely, all of the Divisions purchasing decisions ultimately affect State government's ability to carry out program activities. For example, the expansion of a State agency requires the Division to provide adequate forecasting for the required acquisition of furniture, equipment and operating supplies. Conversely, the Divisions detailed procedures for the

requested procurement of data processing equipment creates a timing concern to program managers who are pressured to meet the various service needs inherent in State government. In all cases, in order to operate effectively, the Division must be actively involved in the early planning stages for all procurement related activities of State government operations.

Scheduled purchasing is a specific planning tool which maximizes one of the major objectives of purchasing: reducing actual unit costs by consolidating individual quantity needs into general quantity volume buying. This procedure, in addition to enhancing volume cost efficiencies, also reduces administrative costs by minimizing the number of requisitions to be processed by both combining separate agency requisitions into one purchasing transaction and by providing agencies the opportunity to stock supplies adequate enough to meet their needs.

OBSERVATIONS AND RECOMMENDATIONS

PARTICIPATION IN GOVERNMENT PLANNING

Observation

The Division of Plant and Property Management is perceived by most State governmental units as merely a service agency that principally performs purchasing as a reaction to requests initiated by other State agencies. Due to this perception, the Division's participation in the detailed planning stages of State functions, programs and activities is minimal.

Recommendation #1

The Division of Plant and Property Management should be vested with the management responsibility during the biennial State budget process of reviewing for "reasonableness" all general operating need requests, as well as any specifically identified purchase requests. Through the Division's knowledge of economic and market conditions, materials availability and technological advancements, its professionals can provide important commentary on the feasibility, practicality, cost effectiveness, timing and other considerations imperative to the budget process. Throughout this process, the Division would not only provide a valuable budget control function, but would also gain valuable information and insights regarding legislative intent, directions and trends.

SCHEDULED PURCHASING

Observation

Currently, only nine (9) commodities have been prescheduled by the Division for identified scheduled purchase dates that will maximize the benefits that accrue from volume buying.

Recommendation #2

Given the identified significance of volume procurement, the Division should review all historical data in an effort to identify additional commodities that would lend themselves to scheduled purchasing and its related benefits.

SOLICITATION PROCESS

Purchases Over \$2,000

Purchases of \$2,000 or more are subject, by law, to open competition through a formal sealed bid process. The Division's process time average for such purchases is two (2) months from the time of agency requisition to the actual preparation of a purchase order.

When a given requisition is subject to competitive bidding, specifications are developed describing the product, quality requirements, delivery terms and procedures for submitting bid proposals. A request for a bid proposal is sent to vendors who have been prequalified to do business with the State. On the bid closing date, bid proposals are publicly opened and recorded. The individual vendor bid proposals are then evaluated for conformance with the established specifications, and a contract is ultimately awarded to the lowest bidder whose product or service meets the identified specifications and requirements.

Purchases Under \$2,000

For purchases of less than \$2,000, formal sealed bids may be used, but they are not required. Alternate procedures for price solicitation include written or telephone quotations. The Division's processing time for these purchases averages approximately twenty (20) days from agency requisition date to the date the purchase order is prepared based upon the written or telephone quote. The criteria for awarding the "under \$2,000" contract is the same as those utilized for formal sealed bid contracts of "over \$2,000".

Telephone quotations, the least formal means of price solicitation, are generally used for low dollar value purchases for items costing less than \$500. Miscellaneous items costing less than \$100 may be purchased directly by an agency without consultation with, or processing by, the central purchasing office. For such miscellaneous purchases, a field purchase order, once reviewed and approved only by an agency director, is given directly to the vendor. Subsequent to the delivery of the product, a copy of the field purchase order will eventually arrive at central purchasing. However, this activity is only for informal administrative filing and takes place after payment has actually been made to the vendor.

Open-Ended Contracts

Open-ended contracts are utilized in order to provide a guaranteed source of supply at identified prices, for physical delivery to be made over a pre-determined period of time. These contracts are initially subjected to the formal bid process and usually contain specifications for a certain period, quantity or dollar limit and are used for items such as autoparts, photocopy paper, eggs and lumber.

In conjunction with the concept of scheduled purchasing, the use of open-ended contracts reduces the unnecessary administrative costs of highly repetitive purchasing activities involved in preparing and issuing requests for bids on the same or similar items. Currently, the Division transacts operating purchases utilizing approximately 120 open-ended contracts.

OBSERVATIONS AND RECOMMENDATIONS

VENDOR SOLICITATION

Observation

The Division currently maintains a vendor listing of approximately 2,700 business entities from whom solicitations are made. This vendor inventory, for which the competitive bid process relies upon, compares to active vendor inventories for Vermont, Rhode Island and Connecticut totalling 4,500, 5,000 and 7,000 respectively.

The Division relies primarily on new sources of suppliers through location in the yellow pages, vendor directories and trade journals. Such a development system as this, which is based on manual search methods, is inadequate and time consuming. In addition, a greater risk of subjective decision-making by individual purchasing agents is created when operating bid procedures with a minimal vendor inventory pool.

Observation (Continued)

The major objective of the recently acquired computer system is to provide an expanded vendor listing data base and an automated system of identifying such vendors by commodity. Plans also have been formulated to include vendor solicitation through national publications to enhance the submittal of Bidder Application Forms for classification and inclusion on the vendor inventory listing.

Recommendation #3

During our Management Review, the Division had taken considerable steps to improve the overall solicitation process and, specifically, to encourage the further expansion of the automated vendor file through development of programs to identify and secure additional product and service providers. To supplement the Divisions initial efforts, our recommendations include the development of the following management information items:

- a Vendor History File reflecting solicitation, responses and award histories by vendor,
- a Commodity Profile Card noting, by commodity, the vendor, award number, award date, quantity, price and requesting agency. Such information should prove beneficial in expanding the use of scheduled purchasing,
- a Bid Award History File showing the historical results of all solicitations of a particular commodity, including the name of each vendor solicited, bid price, no response, no bid response, etc. This report would identify inactive vendors and would indicate questionable patterns in bid awards,
- a Vendor Complaint Code, a "red flag" in the vendor listing, indicating that multiple, frequent or material complaints have been filed against a vendor,
- a Purchase Agent Performance Report providing qualitative and quantitative information on Purchase Officers activities, such as the number of requisitions processed, the products purchased, vendors selected and purchasing procedures utilized (formal sealed bid, written quotation, telephone quotation, sole source purchase), etc.

PURCHASES UNDER \$2,000

Observation

Documentation is not maintained for written or telephone purchase quotes that are required for purchases costing less than \$2,000. Division personnel have indicated that the length of time often expended to perform such procedures and to receive these quotes is not justified when compared to the minimal resultant savings that are experienced. Contrary to this "cost benefit" perception by the Division is available industry literature by qualified procurement authorities who faithfully recommend that solicitation, even for small dollar amounts which do not require formal bidding, enhances a measured degree of reasonable competition.⁴

In addition to the lack of procedural quote documentation, there also appears to be a duplication of effort in obtaining such price quotations not subject to formal bid.

Requesting State agencies often obtain their own quotes from several vendors before actually submitting a formal requisition to central purchasing. The Divisions purchasing agent then repeats the solicitation process without regard to the Agencies efforts or results, even though the lowest priced vendor may have already been identified. Purchases generally tend to be ultimately made from the vendor previously identified by the solicitation process initiated by the requesting agency.

Because of the requesting agencies' experiences in matters for such purchases in which an additional three week delay customarily does not result in a different price or vendor, a resultant widespread misuse of field purchase orders has resulted. To circumvent the time delayed system, agencies have consistently contrived the method of issuing multiple field purchase orders, limited to a maximum of \$100 each, in order to timely procure the products they desire that cost over \$100, but less than \$2,000.

⁴Council of State Governments, State and Local Government Purchasing (Lexington, 1983), p 28.

Recommendation #4

To begin to alleviate some of the significant problems associated with the procurement procedures for purchases under \$2,000, consideration should be given to the following:

- State agencies being given the option for the responsibility of obtaining and documenting written and/or telephone quotes for purchases costing less than \$500. A minimum of three might then be submitted in conjunction with the purchase requisition that is sent to the Division so that purchasing agents may review, and at their discretion, verify the price quotations, or even obtain additional price quotes.
- When agencies choose not to accept the responsibility for obtaining quotations, the purchase agent should solicit and document the quotations in the prescribed manner now in effect.

In liberalizing the responsibility for such purchases, duplicate efforts currently performed by State agency personnel and purchasing personnel should be minimized, while concurrently allowing central purchasing final review and authorization in the selection of the appropriate vendor. In addition, this procedural change should decrease the excessive processing time for non-formal bid purchases and should eliminate the perceived necessity by requesting agencies to incorrectly use multiple field purchase orders to complete a purchase transaction. Finally, procedures should be established to provide for monitoring controls on the exact use of field purchase orders.

UTILIZATION OF OPEN-ENDED CONTRACTS

Observation

A survey of various State agency purchasing personnel revealed an absence, at the agency level, of full and complete listings of all active open-ended contract awards. Most agencies indicated that these contracts proved beneficial, and encouraged expanding the use of such contracts; however, the Division's current procedure of periodically issuing open-ended contract award notices to State agencies does not provide agencies with adequate means for utilizing such contracts.

Recommendation #5

The Division of Plant and Property Management should review its procedures for informing State agencies of current open-ended contracts in order to provide maximum utilization of such contracts.

VENDOR QUESTIONNAIRE RESPONSES

As part of our review of the Division of Plant and Property Management, we developed a questionnaire to provide a medium for vendors to directly input their experiences with, and opinions of, the State's purchasing system.

The purpose of this questionnaire was to determine if purchasing activities were being conducted in a manner conducive to receiving the best price for goods conforming to State specifications and if qualified vendors were receiving an equal opportunity to compete for the State Government's commodity requirements.

The following are significant responses to that questionnaire:

- 60% of the respondents believed that all vendors are given equitable treatment on the solicitation and award of quotations and/or bids. 19% felt that equitable treatment was not given.
- The major factors for not responding to invitations to bid were:
 - Commodity generally not sold (16%)
 - Specifications too restrictive (16%)
 - Anticipated low bid winner below their expected bid price (9%)
 - Insufficient time to prepare bid (8%)
 - Specifications indicated a brand name (8%)
 - Product shortages (8%)

- 21% of the respondents believe that bids are always awarded to vendors whose products meet the required specifications, while 51% believe that such bids are awarded most of the time. The remaining 28% believe that bids are awarded to those vendors whose product would not meet bid specifications.
- 71% of the respondents felt they are given adequate and reasonable specifications to allow them to prepare a competitive bid.

VENDOR MANUAL

Observation

Sixty-nine percent (69%) of the respondents to our vendor survey indicated that a manual on how to do business with the State of New Hampshire would be a useful publication. Currently, the Division of Plant and Property Management encloses bidding instructions with all requests for proposals; however, from the vendors replies, additional information and instruction appears necessary.

Recommendation #6

The Division of Purchase and Property should consider developing a manual describing the process and procedures necessary for a vendor to conduct business with the State of New Hampshire. Such a manual would not only be useful to vendors, but would also prove beneficial to the State since it would promote competition by decreasing bidding errors and by reducing advantages that veteran bidders may have over first-time bidders.

BID EVALUATION AND AWARD

The Purchasing Rules Manual requires that ". . .awards be made to the responsible bidder meeting specifications at the lowest cost unless other criteria are noted in the proposal".³ The term "responsible bidder" relates primarily to the documented ability of a bidder to successfully carry out the terms and specifications of a proposed contract. In general, a "responsible bidder" determination refers to the overall character, reputation and integrity of the entity which has submitted a bid proposal.

The final phase of the procurement process is the awarding of a legally binding contract. The American Bar Association, in the Model Procurement Code for State and Local Governments, offers specific terms and conditions which it recommends should be incorporated into all purchasing contracts.

OBSERVATIONS AND RECOMMENDATIONS

PURCHASE CONTRACT PROVISIONS

Observation

Several significant and material clauses recommended by the American Bar Association are absent from State purchasing contracts. Provisions dealing with "stop work orders", "liquidated damages" and "termination for convenience of the State" are not provided for in standard State purchasing contracts.

Recommendation #7

The Division of Plant and Property Management should request the Office of the Attorney General to review its current purchasing contracts and consider the possible inclusion of these clauses in standard State purchasing contracts.

³New Hampshire Department of Administrative Services, New Hampshire Purchasing Rules Manual (Concord, New Hampshire, 1984), part 406.01.

PROCUREMENT OF PROFESSIONAL SERVICES

As authorized in the Administrative Services Manual of Procedures, State agencies may award contracts for management, medical, legal, accounting and other professional services without participation from central purchasing. The solicitation, evaluation and contract award processes are conducted solely by the requesting agency. The final contractual agreement, including a description of the services to be rendered, product to be generated, date of services, payment schedule and other pertinent information is then submitted to the Governor and Executive Council for approval. Evidence of competitive bidding or full and complete justification as to why competitive bidding or competition was not available is required in each such Governor and Council submittal.

Realizing the importance and benefits of competitive bidding and the ease at which such procedures may be manipulated or circumvented altogether, many states have expanded the scope of responsibilities of their central purchasing departments to include the procurement of professional services for all state agencies. Such a procedure not only provides a more objective approach to securing professional services, but also furnishes uniformity in the solicitation process, the evaluation of bid proposals and the awarding of contractual agreements.

Discussions with purchasing officials from various states indicated several similarities regarding central purchasing involvement in obtaining professional services for state agencies:

- Requesting agencies initially develop specifications, define the scope of services to be rendered or describe the desired project outcome; central purchasing is then responsible for the solicitation and evaluation process.
- A committee, rather than an individual purchasing agent, reviews and evaluates the bid proposals and determines the successful bidder. Frequently, a representative of the requesting agency is a member of the evaluation committee.
- Bid proposal evaluations are based on a "point system" which relies not only on total price, but also incorporates other criteria such as financial stability, experience and qualifications.
- Professional services required by university systems, legislative offices and public works departments are exempt from central purchasing procedures.

OBSERVATIONS AND RECOMMENDATIONS

SOLICITATION OF PROFESSIONAL SERVICES

Observation

A review of professional service contracts revealed that 68% of those contracts submitted to the Governor and Executive Council during March, 1984, made no reference to any form of competitive bidding nor provided any justification for the absence of such competition. These contracts, totalling in excess of \$270,000, included consulting, research, management, medical and legal services. Of the contracts which did mention the method of competition utilized, only one contract named the other bidders and explained the reasons their proposals were unacceptable. In addition, 30% of the contracts reviewed did not indicate the dates of service and 11% did not provide a payment schedule or specify the method of payment.

Recommendation #8

A detailed review of the States use of professional services and the extent to which such services are subjected to competitive bidding is not within the scope of this review of the Division of Plant and Property Management, since such activities are not, at this time, the responsibility of the Division. Such responsibility is currently vested with the Governor and Executive Council.

The discussion of the solicitation of professional services and the limited testing performed on which our observations are based, are presented primarily to indicate trends in the solicitation of professional services in other states, and to discuss the current procedures practiced in New Hampshire.

In light of the observations discussed above, we recommend a further detailed study and evaluation of the extent to which the State utilizes professional services and the solicitation, evaluation and contract award procedures incorporated in securing these services.

III

QUALITY ASSURANCE STANDARDS

The benefits already attained through the successful implementation of competitive bidding can be easily lost without effective formal inspection procedures. Industry publications cite this exposure and summarize it as:

The vendor can offer one thing and sell another; he can compute his bid on a lower quality than that specified, underbid his competitors and probably receive the bid.⁵

Although some recipient State agencies take great care in inspecting delivered goods, the majority have tended to carry the assumption that the items delivered will automatically conform to specifications and that an additional or final inspection is unnecessary. Further, the visual examination currently performed by receiving underinformed staff personnel is inadequate since they are rarely provided with proper guidelines to follow, such as an actual copy of the purchase order and detailed specifications.

Due to the absence of such formalized inspection procedures, the extent of money expended on commodities which are of a lesser quality and/or quantity from that which had been initially ordered cannot be determined. To establish an effective product inspection system, three significant elements are necessary:

- 1) a manual defining the receivers scope and responsibility, guidelines for technique and timeliness of inspections and content of written receiving reports,
- 2) an authorized central administrator provided with the responsibility and flexibility to make spot inspections of agencies during receiving, and
- 3) the development of a standard complaint form and follow-up procedures.

⁵Council of State Governments, State and Local Government Purchasing, (Lexington, 1983) p 86.

OBSERVATIONS AND RECOMMENDATIONS

INSPECTION MANUAL

Observation

The Division of Plant and Property Management currently maintains a Purchasing Rules Manual which details the receiving and inspection responsibilities of State agencies. However, these procedures that have been established for utilization by receiving personnel are not routinely carried out as is required. Recent LBA examinations of most State agencies have cited material weaknesses and deficiencies in the receiving procedures employed by such State agencies. Items repetitively noted are:

- Absence of any formal receiving procedures,
- week long delays before delivered purchases are actually uncrated and examined, and
- improper completion of receiving and inspection reports.

As has been indicated in these examinations, the State agencies absence of using the Division's procedures lessens the likelihood of successful claims against the suppliers of substandard commodities that were physically received and accepted by State agencies.

Recommendation #9

If operating funds could be made available, regular spot checks and inspection audits of State agencies receiving procedures should be conducted by the Division to insure compliance with the prescribed procedures in the Purchasing Rules Manual.

RECEIVING MONITORING PROCEDURES

Observation

The Division has established the position of Inspection and Standards Coordinator to supervise the overall receiving program to be utilized by receiving State agencies, to evaluate actual agency receiving procedures performed and to instruct agencies on technical methods and procedures of inspecting delivered commodities. Weaknesses noted with regard to the accomplishment of such a position include:

Observation (Continued)

- infrequent performance of agency inspections,
- lack of formal, written reports to document past inspections, and
- lack of adequate travel funding, prohibiting regular visits to State agencies.

Recommendation #10

As previously recommended, State agencies should be visited on a regular basis to insure that proper receiving and inspection procedures are being conducted. In addition, reports should be prepared indicating the nature, follow-up and resolution of inspection and receiving problems noted during agency visits. As a prerequisite for such procedures, travel funds should be appropriated to accommodate the cost of such inspections.

COMPLAINT REPORTS

Observation

A survey of State agency Business Administrators disclosed a reluctance on their part to file vendor complaint reports. The absence of such documented complaints from receiving agencies misleads the Division into assuming that vendors are providing acceptable products and services. However, based upon our survey, it is clear that agencies have readily accepted, without comment, backlogs, substituted products, substandard services and delivery delays.

Recommendation #11

Business Administrators at State agencies should be encouraged to file written complaints, as outlined in the Purchasing Rules Manual, when products or services do not meet the terms, specifications and conditions stated in the contract award or purchase order. In addition, all vendor complaints should subsequently be coded by the Division and entered into the computerized vendor file for use in:

- 1) reviewing and evaluating general vendor performance and
- 2) determining whether or not to solicit additional commodities or services from a specific vendor for whom numerous, frequent or material complaints have been filed.

CONTRACT MONITORING

Observation

Agencies may file a vendor complaint report, but the Division has not been provided with statutorily authorized procedures or funding to insure that vendors are meeting the terms and conditions of their contracts. For example:

- 1) Some contracts set specific dollar limits on individual purchases and/or a total contract amount (ie, individual items not to exceed \$1,000; total contract not to exceed \$10,000). Such dollar limits are not always adhered too.
- 2) Purchases are made for items not intended to be part of that contract (ie, office equipment purchased through an office supply contract).
- 3) Some contracts guarantee that the State will receive the maximum trade discount; however, such discount is not identified in the agreement. Vendor records are never reviewed to insure that discounts are being given on State purchases.

Recommendation #12

Statutory authority and appropriate funding should be provided so that procedures can be established that provide for a routine review of State agency and individual vendor records for compliance with the intent, terms and conditions of the contract.

IV

PROPERTY AND INVENTORY MANAGEMENT

Under RSA 21-I:11, the Division of Plant and Property Management is vested with the responsibility for maintaining a detailed central inventory of all State owned real property, physical plant and equipment. The responsibility for the overall policy aspect of the central inventory system and the actual property management function lies with the Division, while the detailed assets accountability for the property items is delegated to the various State agencies.

INVENTORY OF PROPERTY AND EQUIPMENT

The Purchasing Rules Manual specifies a prescribed uniform property and equipment inventory system required for State agencies. The objectives of this system are to ensure adequate accountability for all property and equipment, to document maintenance costs for replacement information and budgetary planning and to provide management control over the potential for requests of unnecessary equipment. To accomplish these objectives, State agencies are required to:

- maintain detailed inventory property records,
- notify the Division of Plant and Property Management of equipment or property location transfers (intradepartment transfers),
- submit monthly equipment adjustment reports (additions and deletions),
- conduct complete annual inventories, and
- investigate discrepancies between the annual inventories and individual property records.

OBSERVATIONS AND RECOMMENDATIONS

INVENTORY RECORDS FOR PROPERTY AND EQUIPMENT

Observation

The objectives of the States property and equipment inventory system are not being attained. Less than one-half of all State agencies required to submit inventory forms have done so since July 1, 1982. Since there are no procedures requiring agency compliance with prescribed inventory rules, the lack of enforcement power to govern such rules has resulted in both inaccurate and incomplete inventory records at many State agencies. The Divisions assistance on establishing, implementing and maintaining inventory systems is rarely requested by State agencies.

Recommendation #13

The Division of Plant and Property Management should be authorized to establish the required procedures necessary to enforce the inventory submittals as outlined in the Purchasing Rules Manual. Agencies delinquent in their inventory submittals should be contacted immediately and required to comply with the appropriate rules. Site inspections should be routinely conducted by the Division to ensure that inventory records are maintained in the prescribed manner and are accurate and complete.

SURPLUS PROPERTY

The final accountability of the inventory system takes place when the need arises for the disposition of surplus property - any property being disposed of as no longer needed or useable. The disposition process encompasses three property categories:

Excess Property: items no longer needed by an agency, but suitable for transfer to another State agency.

Surplus Property: items still useful, but not reasonably needed by any State agency.

Obsolete Property: items without utility, usually due to technological development, wear, tear or damage.

Timely identification of surplus property is essential to an effective disposition program. Delayed identification results in higher maintenance and storage costs and further deterioration of the property decrease its value and lessens its potential benefit from alternate use.

Transferring an item to another agency that has a use for it is the most beneficial method for the State system as a whole. Such a transfer between two general fund agencies, for example, results in no charge to the acquiring agency. During fiscal years 1983 and 1984, over \$200,000⁶ worth of property was transferred between general fund agencies. Acquiring new or even used property outright would have cost the State considerably more; thus, significant savings are recognized through the process of interdepartment transfer of surplus property.

The sale of surplus property is one disposition category which, through auction, sealed bid or public sale, generates a considerable amount of revenue to the State. During the same two year period, revenue from the sale of surplus property exceeded \$680,000.

OBSERVATIONS AND RECOMMENDATIONS

IDENTIFICATION OF SURPLUS PROPERTY

Observations

There are currently no procedures to actively identify and acquire unused property from State agencies. As previously noted, the transfer or sale of unused property yields significant cost savings and generates other revenues. Our review results indicate that since the proceeds from such transfers and sales are not refunded to the agency giving up the property, there is little incentive to surplus such property.

Certain State agencies have occasionally discarded or traded unwanted property without obtaining the proper authority to do so. Although the property may be of little value to the agency, experience has indicated that such property may be worth a considerable amount at auction.

Controls do not exist to ensure that replaced property is actually surplus. Submittals to the Legislative Fiscal Committee (for vehicle replacements) and to the Equipment Control Committee (for other property and equipment replacements) do not specifically identify the property being replaced. Since the Surplus Property Agent is not notified of the actions taken by these committees, he is unable to ensure that the replaced property has been surplus.

⁶Amount based on auction sales of similar property.

Recommendation #14

Although the primary responsibility for declaring property to be "surplus" should remain with the agency in possession, the Division of Plant and Property Management should implement procedures to survey State agencies for unused property which could likely be of use and benefit to other agencies. All State agencies should be encouraged to send all unwanted property to the surplus warehouse for proper transfer or sale.

Vehicle and equipment replacement requests should contain information which specifically identifies the property being replaced: the make, model, serial number, inventory control number, etc., should be included in the request. The Surplus Property Agent should then be notified of all approved requests for replacement in order to follow-up on the subsequent surplus of the indicated property.

AUCTION SALES

Observation

State auctions are not adequately monitored to provide for safeguards against the potential manipulation of sales amounts by the commissioned auctioneer. In addition, the auctioneer is responsible for both the recording of the auction sales and the custody of actual cash proceeds from the sale.

Recommendation #15

The actual selling prices of property sold at State auctions should be monitored by personnel from the Division of Plant and Property Management. Copies of the auctioneers sales records should be obtained and reviewed for test items monitored on the day of the auction.

INVENTORY OF REAL PROPERTY AND PHYSICAL PLANT

RSA 21-I:11 requires the Division of Plant and Property Management to maintain a control inventory of all State owned real property and physical plant in order to assist the Comptroller in complying with prescribed accounting principles. Prior to the enactment of RSA 21-I:11 (7/1/83), a listing of State owned property had been maintained by the Comptroller. This listing specifically identified all parcels of land owned by the State and indicated whether or not a building or improvements were located on the land. Detailed information about the land and buildings, other than general size, dimensions and location, was not provided for in the inventory. The inventory has only been updated by requesting State agencies to report annually any changes to the listing.

OBSERVATIONS AND RECOMMENDATIONS

COMPLIANCE WITH GAAP

Observation

The inventory listing of real property and physical plant does not provide the information necessary for compliance with generally accepted accounting principles (GAAP). As described in the National Council on Governmental Accounting's (NCGA) Statement 1, Governmental Accounting and Financial Reporting Principles, general fixed assets should be recorded and reported at cost or estimated cost. Donated fixed assets should be reported at their fair value when received. Fixed asset records should provide lists and summaries of all assets owned by the State, noting accurate historical costs, current replacement cost estimates and asset location.

Recommendation #16

The Division of Plant and Property Management should review the feasibility of establishing and maintaining general fixed asset records for real property and physical plant as required by generally accepted accounting principles. The procedures for maintaining such records should be incorporated into the Purchasing Rules Manual and properly enforced.

CENTRAL WAREHOUSE OPERATIONS/OFFICE SUPPLIES

The Division of Plant and Property Management is responsible for maintaining and operating any central storage facilities deemed practical. One such facility is the central warehouse, which furnishes office stationary supplies to State agencies, municipalities and authorized non-profit organizations. Approximately 300 types of items are carried by the warehouse and are sold at approximately 10% above cost. Annual sales of stationary supplies have averaged \$247,000 for the last three fiscal years.

In addition to the central warehouse, office supplies may also be purchased through a contractual agreement with Tom Ray Office Supply, Inc. This agreement provides a 23% discount to all State agencies and is limited to office supplies priced less than \$100. Approximately \$250,000 per year is expended under this agreement.

In theory, the functions of the central warehouse and the office supply contract should be mutually exclusive in that:

- 1) the central warehouse should operate as a central office supply store for all State agencies in order to facilitate the benefits derived from economic bulk purchasing;
- 2) the office supply contract should provide easy and provident means for State agencies to procure miscellaneous small dollar office supplies not purchased in sufficient quantities to warrant being stocked by the central warehouse.

In reality, the acquisition of supplies from either the central warehouse or the office supply contract is left to the discretion of the purchasing agency.

Some agencies routinely purchase from Tom Ray supplies which are already stocked by the States own warehouse. Other agencies buy exclusively from Tom Ray regardless of the cost savings afforded through central warehouse purchasing; even with the 23% discount, items purchased from Tom Ray cost up to twice as much as similar items stocked at the warehouse. Finally, due to the extensive product line offered by Tom Ray, agencies frequently purchase equipment and furniture under the guise of office supplies.

As a result of such trends, the central warehouse consequently has experienced a decline in sales, a decrease in the number of supplies requisitioned by agencies and a drop in their inventory turnover. The misuse of the office supply contract and the under utilization of the central warehouse are primarily due to the absence of cohesive management controls over these operations.

OBSERVATIONS AND RECOMMENDATIONS

TOM RAY CONTRACT/CENTRAL WAREHOUSE OPERATIONS

Observations

The office supply contract, initially proposed and put out to bid in 1976, was awarded to Tom Ray Office Supply, Inc., based mainly on its daily delivery terms. It should be noted that other vendors offered higher discounts, but less frequent delivery terms at that time. Although the terms of the contract specifically excluded purchases over \$100 or items stocked by the warehouse, such contract provisions have not been monitored. The contract has been renewed annually since 1976 without question, review or evaluation and has not been resubjected to competitive bidding since such time.

The central warehouse has made no attempt to diversify its stock to meet the changing needs of State office operations. Items frequently purchased in quantity by many agencies are not carried while obsolete or slow moving supplies remain in stock. In addition, State agency personnel, while commending the services provided by the warehouse staff, indicated widespread dissatisfaction with the quality of the merchandise stocked at the warehouse. Finally, procedures employed at the warehouse to replenish and account for the stationary supply stock are arbitrary and inefficient.

Recommendation #17

The Division of Plant and Property Management should review and evaluate current practices of procuring office supplies and should implement changes to serve the needs of State agencies in the most economic manner. Alternatives should be studied from extreme positions such as:

- 1) Expanding the central warehouse operations to accommodate the bulk of State office supply needs. Such an expansion would involve:
 - increasing the inventory line,
 - implementing an automated inventory system,
 - establishing procedures to document agency requirements,
 - analyzing purchase trends,
 - establishing purchase schedules for specific items, and
 - utilizing economic order quantities for replenishing inventory.

2) Terminating the central warehouse operations and procuring all office supplies through a single contractual agreement. Such an arrangement would require:

- frequent review and evaluation of compliance with contract terms,
- strict enforcement of spending limits, and
- annual subjections to the competitive bid process.

SUMMARY OF RULE CHANGES

The following excerpts from the Purchasing Rules Manual highlight significant changes to several key areas of previous purchasing and property management procedures:

INVENTORY PROCEDURES

- An initial complete physical inventory of equipment is required within 120 days of the effective date of the new rules.
- An annual inventory is required to be taken at the end of every fiscal year subsequent to the year the initial inventory is taken.
- The Bureau of Purchase and Property shall be notified of all intra-agency transfers.

REDISTRIBUTION AND DISPOSAL OF EQUIPMENT AND SUPPLIES

- All vehicles, machinery, or equipment declared surplus are required to be turned into the Bureau of Purchase and Property in a complete state, unless otherwise approved in advance. Cannibalization is not allowed.
- The Bureau of Purchase and Property may require an agency to recondition property that they are surplus if such action would result in additional benefit to the State of New Hampshire.
- The authority of agencies to use property as a trade-in when purchasing new property is restricted.
- Rental of machinery or equipment anticipated to be for a period in excess of 30 days must be approved by the Equipment Control Committee.

FIELD PURCHASE ORDERS

- Authority to use field purchase orders has been revoked from all agencies. To be granted new authority to use them, an agency must request in writing permission from the Bureau of Purchase and Property. If authorization is granted, it expires at the end of twelve months or when the block of assigned orders has been expended.
- Field purchase orders may be used for local purchases of goods that are immediately obtainable and shall not be mailed.

AUTHORIZED VENDORS AND RULE CHANGES

- Guidelines have been established for vendors who are interested in becoming authorized vendors, and for procedures for bidding on State contracts.
- Guidelines have been established for vendors requesting a change in the rules, and for vendor grievance hearings.

BID EVALUATION

- When identical low bids are received with respect to price, award will be made by drawn lot.
- When an extreme low bid is received, when the Purchasing Official suspects an error, or when the bid is 30% lower than the next low bidder's offer, Purchase and Property may contact the vendor to verify that the bid is accurate and was made with full understanding of the specifications.

PRISON INDUSTRIES

- The Bureau of Purchase and Property shall purchase commodities for sale by the New Hampshire State Prison, manufactured by the New Hampshire State Prison or for the State Prison by other prison systems, if the Director of Purchase and Property determines that the commodities are of an acceptable quality and the purchase is at a fair market value.
- Procedures have been established for determining the acceptability of prison made products, and for purchasing from the New Hampshire State Prison.

FEDERAL FUNDS

- Federal standards for purchasing commodities, as stated in Circular No. A-102, Attachment 0, paragraphs 7, 8 and 9, are incorporated into the rules governing the Bureau of Purchase and Property.

PROTECTION OF THE STATE

- A patent protection clause has been written into the new rules.
- An assignment provision has been adopted in the new rules. This provision covers causes of action, acquired by a vendor, for violations of antitrust provisions that affect commodity prices in contracts between the vendor and the State of New Hampshire.
- A provision requiring vendors to comply with RSA 277-A, the "Workers Right to Know Act", has been written into the new rules.

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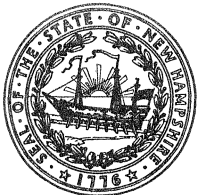
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STATE OF NEW HAMPSHIRE
DEPARTMENT OF ADMINISTRATIVE SERVICES
STATE HOUSE ANNEX, CONCORD, N.H. 03301

Thomas J. Roy, Jr.
Commissioner
(603) 271-3201

603-271-2700

November 19, 1984

Mr. William Kidder
Fiscal Committee
State House
Concord, New Hampshire

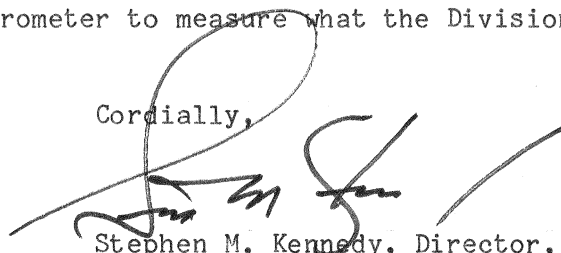
Dear Mr. Kidder:

Enclosed please find my response to the observations and recommendations of the legislative audit team and their report of the Management Review of Policies and Procedures of the Division of Plant and Property Management.

My appointment as Director of the Division of Plant and Property Management began January 9, 1984. On January 11, I was informed by an internal auditor that my rules expired the 14th of February. On February 7 the LBA initiated a six months' study of the Division of Plant and Property Management, soliciting the resources of Stephen Shaw of Administrative Procedures, the Legislative Budget Assistant's Office, the University of New Hampshire system, meetings with individuals from Anheuser Busch Company, Nashua Corporation, and the Portsmouth Naval Shipyard, in facilitating an Integrated Financial System that would be predicated on an automated purchasing process. I utilized many resources and I feel we are on the right track, to not only accomplish the goals of the LBA audit, but the goals of the Integrated Financial System and my personal assessment for an efficient, productive purchasing organization.

The LBA assessment is a good barometer to measure what the Division was like during this transition.

Cordially,



Stephen M. Kennedy, Director,
Plant & Property Management

SMK/cl

Encl.

Recommendation
Number: _____

1. PARTICIPATION IN GOVERNMENT PLANNING:

Comments:

On August 22, 1984 we invited all State agencies to a seminar to brief and acquaint business supervisors with the procedures and help them in the procurement of goods and commodities. We also took advantage of the seminar to explain our newly accepted N.H. Purchasing Rules Manual, form changes, and to offer them an indication of what the future holds. This meeting was well received and I have received much pressure from those agencies that were not able to attend, that we schedule another meeting soon. It is my intention that this will be an annual event. I thoroughly concur with the recommendations of the LBA for the participation in government planning, and I agree that the department will have significant input.

2. SCHEDULED PURCHASING:

Comments:

After careful review of the Calendar of Requisitions, we found it to be most inappropriate in terms of its effectiveness and efficiency. We have determined that the State's best interest could be served by contracts for repetitive purchases. I have found that our purchasing costs have been reduced and the net cost of commodities is approximately the same, utilizing the contract method.

3. VENDOR SOLICITATION:

Comments:

On August 17, 1984, the Division of Plant and Property Management actively solicited new vendors by Public Notice in all of the daily newspapers.

This generated tremendous response from local vendors. We significantly added to our vendor list and we are currently surveying, nationally, vendors for our computer classifications. We are currently addressing all the recommendations made by the LBA and we are developing programs within our data base to sort and match vendors, to develop, audit trails, vendor history, and commodity updates, improving performance and efficiency.

Recommendation
Number

4. PURCHASES UNDER \$2,000.00:

Comments:

It is the current practice of the Division of Plant and Property Management that a minimum of three (3) vendors be contacted for purchases of non-contracted commodities by the following procedures:

REQUEST FOR QUOTATION which is a written quotation to a request within a short period of time, to determine the lowest vendor meeting specifications.

REQUEST FOR PROPOSALS are used when the specifications require a more detailed response to determine the lowest vendor meeting those specifications.

TELEPHONE QUOTES are used for the purchase of easily identified products from three (3) vendors and the award is made to the lowest responsible vendor meeting specifications.

5. UTILIZATION OF OPEN-ENDED CONTRACTS:

Comments:

Please refer to the N. H. Purchasing Rules Manual, which I think best addresses the recommendations of the LBA audit team.

6. VENDOR MANUAL:

Comments:

We are currently distributing to vendors, our N. H. Purchasing Rules Manual to assist them in soliciting business from the State of New Hampshire.

Recommendation
Number

7. PURCHASE CONTRACT PROVISIONS:

Comments:

The Bureau of Purchase and Property and the Office of the Attorney General has, and will continue to operate as a team protecting the public interest and the interest of the State of New Hampshire with the diligence and professionalism that both departments represent. Our contract strengths are sufficient and restrictive to ensure that the State maintains a proper posture in the event of challenge.

I feel that the continued relationship between this department and the Office of the Attorney General is in direct ratio to the success of the purchasing process.

8. SOLICITATION OF PROFESSIONAL SERVICES:

Comments:

I thoroughly agree with the findings of the LBA audit team that this is an area of most serious concern. Because of the complexities of State Government it is impossible for any one agency to know all the answers, but the team approach will accomplish tasks that seem impossible with better success. I will certainly assist and participate in a detailed study in evaluating the procurement of professional services.

- 9. INSPECTION MANUAL:
- 10. RECEIVING MONITORING PROCEDURES:
- 11. COMPLAINT REPORTS:
- 12. CONTRACT MONITORING:
- 13. INVENTORY RECORDS FOR PROPERTY AND EQUIPMENT:

Comments:

It is inconceivable that a Division of one must be responsible for maintaining a vigil in excess of 260 agencies, large and small, to be responsible for the complexities of evaluation of all orders.

Recommendation
Number

14. IDENTIFICATION OF SURPLUS PROPERTY:

15. AUCTION SALES:

Comments:

The Surplus Property program is operated by one Surplus Property Agent, his family, volunteers from a local snow-mobile club, 2 staff employees, (working for comp. time) 6 inmates, who generate in excess of \$600,000 annually and return 100% of revenue generated at the auction to the appropriate restricted accounts and the General Fund without cost.

16. COMPLIANCE WITH GAAP:

Comments:

The Division of Plant and Property Management through the Integrated Financial System will be in compliance with GAAP by mid-summer '85. It's procedure will be reflected in the N.H. PURCHASING RULES MANUAL as recommended by the LBA.

17. WAREHOUSE OPERATION:

Comments:

My intention to automate the Warehouse Operation is scheduled for completion in March or April of 1985. Expanding inventories of additional office supplies that will augment our present warehouse.

P.S. The office supplies contract went out to bid and the award was made to the Chas. C. Rogers Co. of Laconia, who was the lowest bidder meeting specifications.