
STATE OF NEW HAMPSHIRE
DEPARTMENT OF ADMINISTRATIVE SERVICES
DIVISION OF PLANT AND PROPERTY MANAGEMENT
STATE PROCUREMENT & PROPERTY MANAGEMENT SERVICES

PERFORMANCE AUDIT
JUNE 1990

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have conducted a performance audit of the state's procurement system administered by the Division of Plant and Property Management in accordance with recommendations made to the Fiscal Committee by the Joint Legislative Performance Audit and Oversight Committee. Our audit was conducted in accordance with generally accepted governmental auditing standards and accordingly included such procedures as we considered necessary in the circumstances.

Our primary objectives were directed at examining the current status of the observations and recommendations contained in our prior audit of the division entitled *MANAGEMENT REVIEW of the POLICIES AND PROCEDURES OF THE DIVISION OF PLANT AND PROPERTY MANAGEMENT*, dated June 20, 1984. That review focused on the organizational structure and authority of the division, purchasing procedures, quality assurance policies, and inventory and property management. The intent was to provide recommendations to improve accountability, increase efficiency and enhance economies associated with public procurement of goods and services.

Public sector procurement is often thought of as a routine, drab, uninteresting, housekeeping function that requires little imagination or skill. On the contrary, however, an effective central purchasing program reduces the cost of government, inspires public confidence in government, improves the quality and timeliness of services rendered by state government and provides a meaningful link to the business community. It is a function that should not be undervalued or overlooked. Effective management of this function is vital to its success.

This report results from extensive consultation and interviews with administrators and purchasing agents of the division, testing and review of the purchasing process, and compilation of survey results solicited from the largest state agencies that interact daily with the division. Our report is intended solely to inform the Legislative Fiscal Committee of our findings and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Fiscal Committee, is a matter of public record.

Office of Legislative Budget Assistant

OFFICE OF LEGISLATIVE BUDGET ASSISTANT

June 1990

STATE OF NEW HAMPSHIRE
DEPARTMENT OF ADMINISTRATIVE SERVICES
DIVISION OF PLANT AND PROPERTY MANAGEMENT
STATE PROCUREMENT & PROPERTY MANAGEMENT SERVICES

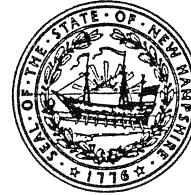
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OFFICE OF LEGISLATIVE BUDGET ASSISTANT

EXECUTIVE SUMMARY

DEPARTMENT OF ADMINISTRATIVE SERVICES
DIVISION OF PLANT AND PROPERTY MANAGEMENT
STATE PROCUREMENT & PROPERTY MANAGEMENT SERVICES



Our audit of New Hampshire's central purchasing operation follows up on a 1984 management review of the Division of Plant and Property Management and assesses the current purchasing environment. The Department of Administrative Services' Division of Plant and Property Management (the "division") is New Hampshire's central purchasing office. RSA 21-I vests the division with the responsibility for purchasing most commodities and statewide services for state agencies with certain exceptions.

We reviewed several aspects of purchasing operations, including the organization of the purchasing function, preprocurement and acquisition processes, purchasing activities delegated to individual state agencies, quality assurance, and property and inventory management. In each of these areas we evaluated changes that occurred since 1984, made observations regarding the current process, and recommended changes that we believe would lead to a more effective program. Our observations are summarized below. Parenthetical references are made to a complete discussion of the observations and recommendations that begin on page seventeen. The division's response to the observations and recommendations is presented in Appendix D.

ORGANIZATION OF THE PURCHASING FUNCTION

RSA 21-I:11 establishes the division as an organizational unit of the Department of Administrative Services and defines its role and responsibilities in the purchasing process. The *New Hampshire Purchasing Rules Manual* addresses the division's internal operations in greater detail and prescribes rules, regulations and a system of forms intended to promote the orderly and efficient flow of information among the division, state agencies and vendors. The current rules expired in July 1990, subsequent to our audit report dated June 1990.

OBSERVATIONS

ADMINISTRATIVE RULES

1. The division has allowed its administrative rules to lapse past the expiration date of July 23, 1990. A six year time limit is imposed under RSA 541-A:2 IV, after which time an agency is required to renew its rules in accordance with the proceedings described in RSA 541-A:3. The procedure required to adopt administrative rules normally takes about three months to complete, meaning the division has operated without legitimate rules since July 23, 1990 and will continue to do so for several

EXECUTIVE SUMMARY

ORGANIZATION OF THE PURCHASING FUNCTION (Continued)

ADMINISTRATIVE RULES (Continued)

more months. Secondly, the division has routinely waived existing rules by choosing not to follow them in practice, and has not made an effort to update the rules since 1984 in spite of significant operational and accounting changes statewide. This leads to unnecessary confusion on the part of state agencies which are expected to abide by the rules published by the division. (p. 17)

CONTRACT PROVISIONS

2. Several significant and material clauses recommended by the American Bar Association are not included in contracts used by the division. New Hampshire's purchasing contracts do not contain provisions dealing with "stop work orders", "liquidated damages", and "termination for the convenience of the state". (p. 18)

PREPROCUREMENT AND SOLICITATION PROCESS

Before purchasing a commodity, the division must decide the best mechanism (such as a statewide contract, bid proposal, or telephone quote) for purchasing it. RSA 21-I:11 III requires competitive bidding for all purchases made by the division with the primary exception being purchases that are less than \$2,000. Factors considered in deciding how to purchase a commodity include the quantity being bought, the number of agencies that need the commodity, the urgency of the need, the availability of suppliers, and the likely cost of the purchase. The division also assists the agency in determining specifications for the item being purchased.

OBSERVATIONS

ESTIMATED PURCHASE ORDERS

3. In our sample of seventy-six fiscal year 1989 requisitions less than or equal to \$2,000, eighteen, or (24%), of the resulting purchase orders were based on estimates rather than firm prices. Less reliance on estimates would result in more competitive purchasing. (p. 21)

PRICE AGREEMENTS

4. Price agreements are being made for purchases exceeding \$1,000 with no review or authorization beyond the buyer. The rules do not currently contain a provision authorizing price agreements and non-competitive purchases exceeding \$1,000 require the approval of the director of the Division of Plant and Property Management (Adm-Pla 504.05). (p. 22)

EXECUTIVE SUMMARY

PREPROCUREMENT AND SOLICITATION PROCESS (Continued)

ACCEPTABLE BRANDS LISTS

5. Although administrative rules (Adm-Pla 503.06) encourage the Bureau of Purchase and Property to evaluate commodities for possible inclusion on "acceptable brands lists" as an alternative to developing detailed specifications on many different products, the bureau currently has only three such lists on file. (p. 23)

ACQUISITION PROCESS

Once the appropriate purchasing mechanism is decided on for a purchase request, the division follows the procedures for that mechanism to complete the purchase. Each purchase is documented by standard forms. Generally speaking, the requisition shows the agency's request, and the purchase order shows what was ordered. Vendor invoices detail what was billed to the state, and payment vouchers show what the state paid the vendors. For statewide contracts, agency orders serve as the requisition and the purchase order, thus speeding the process for frequently purchased commodities.

OBSERVATIONS

PURCHASE ORDER NUMBER CONTROL

6. The division does not sequentially control and account for the issuance of purchase orders, thus reducing the effectiveness of internal control. (p. 25)

STATEWIDE CONTRACT AMOUNTS

7. The division does not receive any information as to the amount of money charged to statewide contracts during the time they are open, nor does it review invoice data for purchases it has approved to ensure that vendors are billing according to the terms of the contract. (p. 25)

STATE AGENCY PURCHASES-DELEGATED PURCHASING AUTHORITY

While a state agency must generally defer to the division when making commodity purchases of significant value, an agency is allowed to purchase items costing up to \$100 and procure all services needed by that agency regardless of cost. These purchases are authorized by RSAs 21-I:17a and 21-I:11, respectively.

OBSERVATIONS

MISUSE OF FIELD PURCHASE ORDERS

8. Several agencies are using multiple field purchase orders to circumvent the \$100 limit. Agencies are also purchasing items directly from vendors instead of at the central warehouse or from vendors under state contract. (p. 27)

EXECUTIVE SUMMARY

STATE AGENCY PURCHASES—DELEGATED PURCHASING AUTHORITY (Continued)

FIELD PURCHASE ORDER LIMIT

9. Although consumer prices have more than doubled since 1973, according to the consumer price index, the field purchase order limit has remained at \$100 since then. (p. 28)

PROCUREMENT OF SERVICE CONTRACTS

10. The study of professional service contracts recommended by our office in 1984 has not been performed. Given the high dollar volume of services procured by the state, (\$35 million for the six months ended December 31, 1989), we believe that DAS does not provide an appropriate level of direction, oversight and assistance to the agencies they are directed to assist within the context of RSA 21-I:6(VI) and RSA 21-I:11 as amended. Based on our review of 76 service contracts approved during March and April 1990 with a total value of \$5.8 million, \$2.1 million, or 36%, were not procured in accordance with competitive bidding requirements. (p. 29)

QUALITY ASSURANCE

The division plays two roles related to quality assurance over purchasing operations. One role is external to the division, ensuring that agencies and vendors are properly performing their role in the purchasing process. The second role involves the division's efforts to control its own internal operations and manage its workload effectively.

RSA 21-I:12 and rule Adm-Pla 507.02 make the Bureau of Purchase and Property responsible for the inspection and testing of deliveries of purchased items for compliance with purchase orders. The bureau, as required by Adm-Pla 507.05 is responsible for resolving complaints that agencies have with vendors.

OBSERVATIONS

AGENCY INSPECTIONS

11. The division has not audited or inspected agency deliveries in a systematic way for years. (p. 33)

COMPLAINT FILE

12. A central file for complaints about vendors is not currently being kept by the bureau. (p. 34)

FUEL OIL PRICE VERIFICATION

13. Two out of three large agencies that we tested are not verifying terminal prices for fuel oil purchases. (p. 34)

EXECUTIVE SUMMARY

QUALITY ASSURANCE (Continued)

COMPUTERIZATION OF OPERATIONS

14. Purchasing agents presently do not have personal computers available for their use, and data management for the purchasing function is still accomplished using the Liquor Commission's MAPPER information system. Presently, the division is inputting some of the same information into both the integrated financial system and the MAPPER data base. Computer equipment and access to quality operational data can significantly enhance the quality of operational functions in a production-oriented office. (p. 35)

TRAINING

15. None of the purchasing agents has had any formal training to advance professional competence and only one has had some brief on-the-job training. (p. 36)

PROPERTY AND INVENTORY MANAGEMENT

Among the responsibilities of the division relating to property and inventory management are equipment inventory and reporting, surplus distribution, inventories of real property and physical plant, and warehouse operations. RSA 21-I:11 lists these responsibilities.

OBSERVATIONS

EQUIPMENT INVENTORY REPORTING

16. Although agencies' reporting of equipment inventories has improved, the bureau does not verify this information, and the agencies are not required to retain documentation substantiating the reported value of equipment. Also, the threshold for classifying an item as equipment has been \$100 since at least 1977. (p. 37)

INVENTORY OF REAL PROPERTY AND PHYSICAL PLANT

17. The inventory of real property and physical plant does not provide sufficient information to support the reported amount of fixed assets. (p. 38)

SURPLUS PROPERTY

18. Many state agency officials believe that they are not adequately informed about the availability of surplus items. (p. 39)

WAREHOUSE INVENTORY CONTROLS

19. The warehouse database management system for inventory needs controls in three key areas: access to the system, segregation of accounting duties, and storage of backup disks. (p. 39)

EXECUTIVE SUMMARY

PROPERTY AND INVENTORY MANAGEMENT (continued)

WAREHOUSE DATA RECONCILIATION

20. The division does not reconcile data from its internal automated accounting system to the integrated financial system. (p. 40)

CONCLUSION

Since our last report on the state's purchasing function in 1984, the division's efforts to improve its operations have resulted in more prescheduled purchases, and an expanded vendor list from 2,700 to over 11,000 vendors, promoting increased competition; better agency reporting on property and equipment inventories; better monitoring of auctions; and wider use of the state's central warehouse. Our review of operations in fiscal year 1989 showed the division doing a good job of processing a large volume of purchases through its system in a reasonably timely manner.

There are several areas where the division could improve. Particularly challenging will be the division's efforts to revise rules, computerize purchasing operations, and monitor state agencies' purchasing activities. We hope that our observations and recommendations will be useful to the division in its continued attempts to make its purchasing operations more effective.

STATE OF NEW HAMPSHIRE
DEPARTMENT OF ADMINISTRATIVE SERVICES
DIVISION OF PLANT AND PROPERTY MANAGEMENT
STATE PROCUREMENT & PROPERTY MANAGEMENT SERVICES

I. INTRODUCTION

Purchasing is an important function in any state government due to the substantial amount of public funds that are expended every year for agencies serving the public's needs. In forty-nine of fifty states in the U.S., a central purchasing office is viewed as the best way of channeling these funds to efficiently and effectively serve state agency requirements for goods and services. The Council of State Governments has stated that "...by operating under a centralized system, states ensure accountability of the procurement process, eliminate duplication of effort, provide better quality...services to user agencies, promote the integrity of purchasing practices, and achieve substantial cost savings." As New Hampshire's central purchasing office, the Department of Administrative Services' Division of Plant and Property Management strives to achieve these benefits for the state.

As outlined in RSA 21-I, the division's responsibility is to purchase most commodities and statewide services for state agencies.¹ The division must, therefore, serve as an intermediary between the agencies needing commodities and services and the vendors that can provide them. Through the use of many purchasing mechanisms and procedures, to be discussed on the following pages, and with the knowledge of experienced staff, the division tries to provide quality goods and services to agencies for the best possible price.

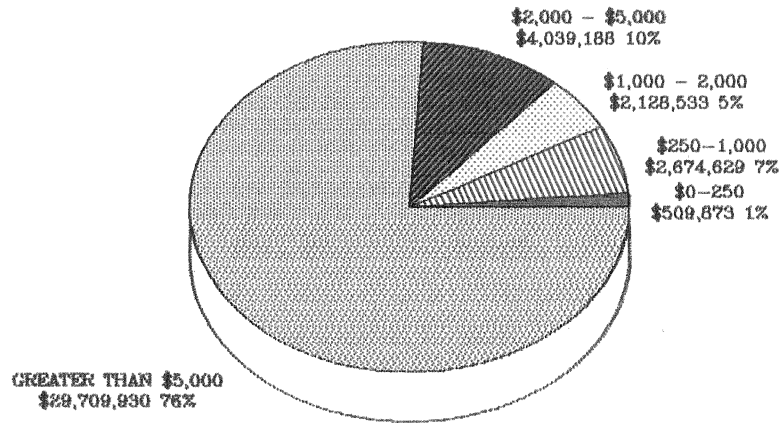
RSA 21-I:11(III) requires competitive bidding for all purchases made by the Division of Plant and Property Management except under the following conditions:

- o the purchase does not exceed \$2,000 or is in an approved class
- o the item is available from a sole source
- o the item has a fixed market price at all sources
- o the governor has authorized an emergency purchase

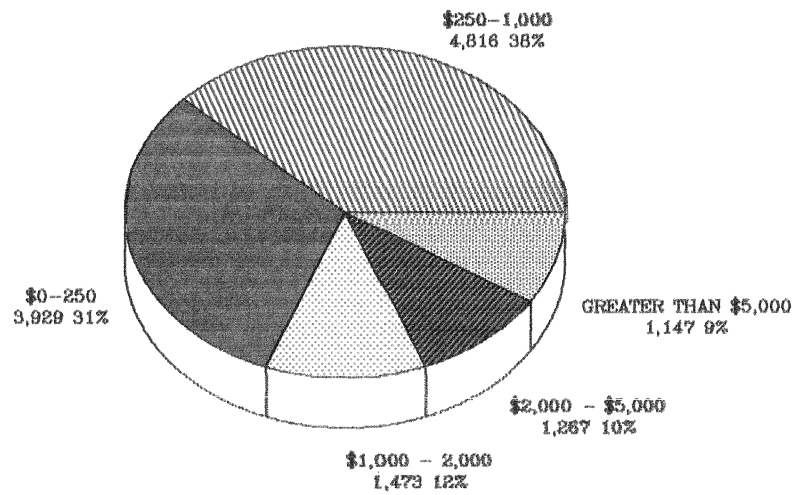
Administrative rules govern purchases that are less than \$2,000. The procedures required for these purchases are designed to expedite the transaction in the most efficient manner possible. Telephone quotes and written requests for quotations are the general means of completing these purchases, which accounted for 81% of the transactions processed by the division in volume, but only 13% of the value during fiscal year 1989, as shown in the pie charts on the following page.

¹ RSA 21-I:18 exempts the University system, Liquor Commission (with regard to Liquor purchases), the legislature, secretary of state, court system and the state reporter from the requirements of RSA 21-I, as well as certain other activities.

VALUE OF PURCHASE ORDERS BY CATEGORY FISCAL YEAR 1989



NUMBER OF PURCHASE ORDERS BY CATEGORY FISCAL YEAR 1989



I. INTRODUCTION (Continued)

Over \$39 million was spent by state agencies for commodities purchased through the division during fiscal year 1989. This level of activity was generated by the receipt of 13,590 requisitions from state agencies and the issuance of 12,632 purchase orders and agency orders to various vendors by the division. This level of activity is also representative of the activity generated during fiscal year 1988. Ten departments and commissions accounted for \$36.3 million, or 93% of the purchases as shown in the table below.

Top 10 Departments in New Hampshire
By Value of Commodities Purchased in Fiscal Year 1989

<u>Department</u>	<u>Number of Purchase Orders</u>	<u>% of Total</u>	<u>Total Dollars</u>	<u>% of Total</u>
Transportation	1,791	14	\$ 13,274,483	34
Health & Human Services	2,767	22	6,426,919	16
Administrative Services	1,023	8	3,529,790	9
Safety	643	5	3,427,441	9
Corrections	995	8	2,578,465	7
Post-Sec. Voc. Ed.	1,461	11	1,828,740	5
Liquor Commission	243	2	1,510,003	4
Fish and Game	480	4	1,354,352	3
Environmental Services	966	8	1,181,854	3
Resources and Economic Development	<u>466</u>	<u>4</u>	<u>1,141,895</u>	<u>3</u>
SUBTOTAL	10,835	86	36,253,942	93
All other agencies	<u>1,797</u>	<u>14</u>	<u>2,808,213</u>	<u>7</u>
TOTAL	<u>12,632</u>	<u>100</u>	<u>\$ 39,062,155</u>	<u>100</u>

Source: Mapper Database

I. INTRODUCTION (Continued)

TYPE OF PURCHASE

The following commodities were purchased through the division during fiscal year 1989. The twenty-five largest purchases by type of commodity accounted for sixty-three percent of the total purchased by the division during fiscal year 1989.

Dollar Value by Commodity of New Hampshire's
Top 25 Commodity Purchases in Fiscal Year 1989

<u>Commodity</u>	<u>Dollar Value</u>
Computers & Accessories	\$ 4,489,952
Rock Salt	3,482,011
Fuel Oil	2,354,869
Office Furniture	2,017,545
Passenger Vehicles	1,414,881
Trucks	1,129,290
Paper	987,020
Police Vehicles	890,396
Gasoline	883,957
Vehicles & Equipment-Special Purpose	779,488
Calcium Chloride	651,839
Veterinary Drugs	530,119
Lab Supplies	525,256
Meat & Poultry	508,067
Miscellaneous Office Supplies	491,525
Paints	461,220
Computer Software	418,924
Miscellaneous Equipment	411,676
Lab Equipment	407,738
Tires	357,037
Computer Paper	341,481
Medical Drugs	317,410
Loaders, Front-End	314,739
Aircraft Equipment & Supplies	245,307
Miscellaneous Furniture-Hospital	<u>235,936</u>
 SUBTOTAL	 24,647,683
 All Other Commodities	 <u>14,414,472</u>
 TOTAL	 <u>\$ 39,062,155</u>

Source: Mapper Database

I. INTRODUCTION (Continued)

VENDORS

The following twenty-five vendors supplied forty-eight percent of the state's purchases of commodities during fiscal year 1989. The division purchased goods from approximately 3,000 different vendors during fiscal year 1989.

New Hampshire's Top 25 Vendors by Dollar Value of
Commodities Purchased in Fiscal Year 1989

<u>Vendor</u>	<u>Dollar Value</u>
Granite State Minerals	\$ 3,477,258
Office Dimensions	1,764,902
Ron Currier Hilltop Chevrolet	1,517,205
Nixdorf Computer Corp.	1,120,435
IBM Corp.	1,022,205
Unisys	994,221
Rymes Heating Oils Inc.	737,596
Bull Worldwide	675,601
Lindenmeyr Munroe	654,052
Belcher New England, Inc.	619,724
International Salt	589,210
Leaderle Laboratories Div.	518,102
Joyce Office Products Centers	474,323
Valley Heating Oils, Inc.	468,402
Central Paper Products Co.	451,485
Baltimore Paint & Chemical Co.	447,623
Ken Carpenter Ford	443,395
Agway Petroleum Corp.	418,181
Bonneville & Son, Inc.	409,460
Grappone Truck Center	363,324
Goodyear Tire & Rubber Co.	344,668
Minnesota Mining & Mfg.	329,336
Dobles Chevrolet	288,693
Liberty International Trucks	280,705
Adden Furniture	<u>278,623</u>
 SUBTOTAL	 18,688,729
 All Other Vendors	 <u>20,373,426</u>
 TOTAL	 <u>\$ 39,062,155</u>

Source: Mapper Database

I. INTRODUCTION (Continued)

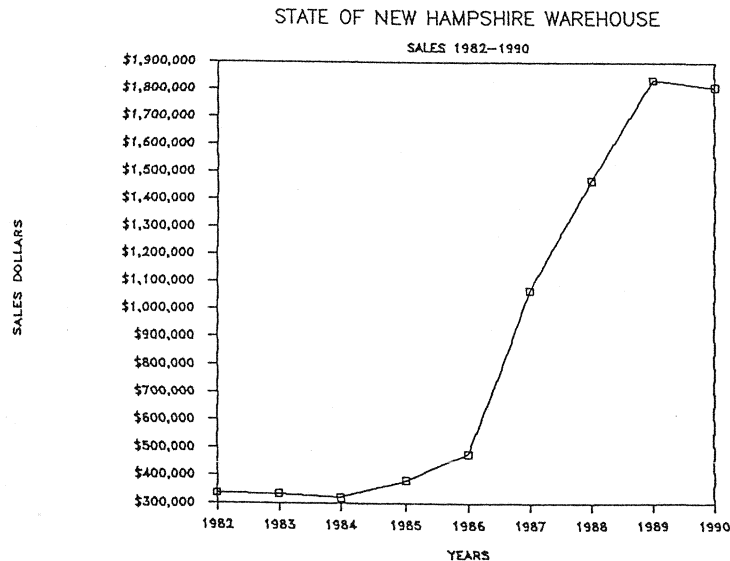
CENTRAL WAREHOUSE

In addition to requisitioning goods through the division, the agencies may also order supplies from the division's warehouse. The warehouse stocks over 500 commonly-used supplies that agencies can order and have delivered. To pay for warehouse operations, the division charges agencies 10% over cost for the items it sells. Because the warehouse can buy in bulk and will deliver to the agencies, the division believes that agencies will save both time and money by purchasing items at the warehouse versus local vendors.

Warehouse sales have greatly increased over the years as the division has stocked and sold a growing number of items. An aggressive program to promote warehouse sales and attract new customers accounts for the large increase in sales since 1986. The table and accompanying chart below illustrate the growth in warehouse sales since 1982.

State Of New Hampshire Central Warehouse
Sales Of Consumable Inventory

<u>Year Ending June 30</u>	<u>Sales (Issues)</u>
1982	\$ 355,365
1983	\$ 333,308
1984	\$ 319,642
1985	\$ 380,828
1986	\$ 477,787
1987	\$ 1,068,412
1988	\$ 1,468,458
1989	\$ 1,836,586
1990	\$ 1,810,893



Source: Bureau of Purchase and Property

I. INTRODUCTION (Continued)

PROPERTY AND EQUIPMENT

In addition to functioning as the state's central procurement office, the division is charged with the responsibility of maintaining a central inventory record of all state owned real property, physical plant and equipment pursuant to RSA 21-I:11, VII. The inventory is used as the basis for reporting the total value of the state's fixed assets in the comprehensive annual financial report. This responsibility is administered by requiring all state agencies to comply with reporting requirements on a monthly and annual basis. The reports submitted by individual state agencies are combined and summarized on a statewide level by the division. The reported value of fixed assets (unaudited) in the Comprehensive Annual Financial Report as of June 30, 1989 was as follows:

Land	\$ 148,966,456
Land Improvements	2,452,485
Building	248,302,451
Building Improvements	13,377,571
Equipment	<u>105,898,126</u>
TOTAL	<u>\$ 518,997,089</u>

SURPLUS PROPERTY

Another of the division's functions is to handle the distribution of surplus property. Part of this activity includes transfers of surplus property among agencies. The surplus that is not needed by agencies is auctioned to the public at least twice a year. For the growth in surplus sales and transfers, as well as auction sales, see the table and graph below and on the following page.

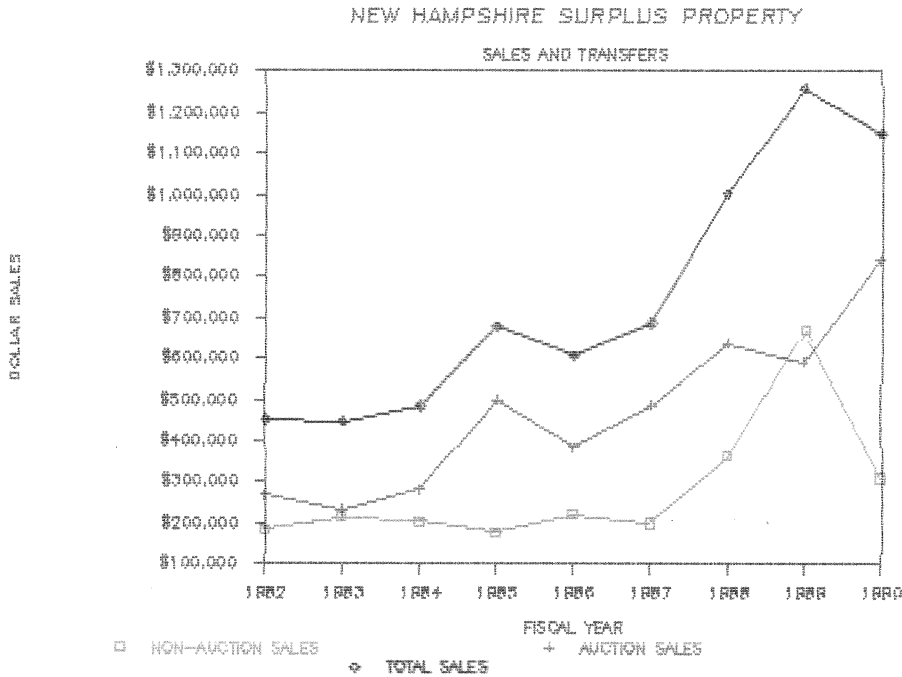
New Hampshire Surplus Property

<u>Year Ending</u> <u>June 30</u>	<u>Public</u> <u>Auction</u>	<u>Other Sales</u> <u>and Transfers</u>	<u>Total Sales</u> <u>and Transfers</u>
1982	\$ 268,749	\$ 184,910	\$ 453,659
1983	\$ 231,653	\$ 215,401	\$ 447,054
1984	\$ 282,727	\$ 202,883	\$ 485,610
1985	\$ 500,059	\$ 177,904	\$ 677,963
1986	\$ 384,557	\$ 221,619	\$ 606,176
1987	\$ 486,150	\$ 199,413	\$ 685,563
1988	\$ 637,732	\$ 364,553	\$ 1,002,285
1989	\$ 591,658	\$ 668,806	\$ 1,260,464
1990	\$ 839,392	\$ 309,303	\$ 1,148,695

Source: Bureau of Purchase and Property

I. INTRODUCTION (Continued)

SURPLUS PROPERTY (Continued)



All of the aforementioned functions go together to form a comprehensive system that includes the buying, tracking, using, reusing, and disposing of commodities in the state. This report examines all of these functions as they currently are performed, and also comments on their status as they relate to our prior management review of the division issued in 1984.

OBJECTIVES, SCOPE AND METHODS

Our study assessed the central purchasing system in New Hampshire as a follow-up to our 1984 management review of purchasing. We addressed the following objectives:

1. To determine the adequacy of the division's policies and procedures, particularly regarding planning and scheduling of purchases, soliciting vendors, evaluating bids and awards, and procuring professional services.
2. To determine the sufficiency of quality assurance measures for receiving and inspecting purchases and for monitoring contracts and vendor complaints.
3. To determine the adequacy of property and inventory management, particularly regarding the inventory of property and equipment, surplus property, and the inventory of real property and physical plant.

I. INTRODUCTION (Continued)

OBJECTIVES, SCOPE AND METHODS (Continued)

4. To examine the growth in central warehouse operations, the office supply contract process, and economies that might be achieved from further centralization of purchasing.
5. To determine whether there are other areas beyond those mentioned in the 1984 report that need to be addressed based on our review of current operations.

In order to accomplish these objectives, we:

- Held extensive interviews with the administrator, supervisors, purchasing agents, and other staff within the Bureau of Purchase and Property regarding several areas of inquiry, including purchase planning and scheduling, the purchasing process itself, quality assurance procedures, inventory procedures for property and equipment, warehouse procedures, and surplus procedures;
- Statistically sampled 141 requisitions and agency orders from fiscal year 1989, traced requisitions and subsequent purchase orders from the beginning to the end of the purchasing process, and analyzed the process to determine whether it was being followed in accordance with New Hampshire law and administrative rules;
- Reviewed contract forms and practices to determine their appropriateness;
- Reviewed a sample of professional service contracts on file at the Office of Secretary of State;
- Sampled field purchase orders to test whether agencies were using multiple field purchase orders to circumvent the \$100 limit or were buying items that could have been bought under statewide contracts;
- Tested a sample of auction lots to check whether auction receipts were recorded correctly;
- Reviewed plans to automate the statewide inventory of equipment and real property and physical plant and interviewed officials to determine the current status of the plans; and
- Surveyed state agencies to determine their perspectives on New Hampshire's purchasing policies and procedures. Our survey solicited comments on the level of satisfaction and communication with the division, vendor performance, the central warehouse and field purchase orders. The responses are summarized and presented in Appendix B.

II. ORGANIZATION OF THE PURCHASING FUNCTION

When the Department of Administrative Services was established pursuant to RSA 21-I in 1983 as part of New Hampshire's executive branch reorganization, the Division of Plant and Property Management was established within the department to manage property and physical plant, provide general support services, and establish and maintain policies consistent with the goals of the reorganization. Within the division is the Bureau of Purchase and Property. The bureau discharges the division's responsibility for purchasing all materials, equipment, supplies, and statewide services for departments and agencies of the state. In addition to its purchasing functions, the bureau is responsible for controlling the inventory of state-owned equipment and the determination and disposal of surplus property.

Total operating expenditures of the bureau during fiscal year 1990 amounted to \$840,474 to staff and support the administration of the purchasing office, central warehouse and the White Farm. An additional \$1,762,696 was spent from a revolving account to stock the central warehouse.

Since 1984 the major organizational change in the area of purchasing occurred with the warehouse and surplus activities; an expansion of these activities has resulted in two more staff for the surplus program and four more for the warehouse since the mid-1980s. Also, the purchasing unit of the division has filled two purchasing agent positions since 1984 to bring the total back to five. An administrator position was added to oversee the Bureau of Purchase and Property, and two positions, inspections and standards coordinator and specifications officer, were abolished. (See Appendix A for current organizational charts for the Department of Administrative Services and the Bureau of Purchase and Property.)

While RSA 21-I serves as the statutory basis for the purchasing functions of the division, the *New Hampshire Purchasing Rules Manual* contains the rules governing the division's internal operations and prescribes the operational systems and forms that facilitate the smooth exchange of information between the division, state agencies and vendors. These rules expired in July 1990, subsequent to our audit report dated June 1990.

II. ORGANIZATION OF THE PURCHASING FUNCTION (Continued)

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OBSERVATION # 1
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ADMINISTRATIVE RULES

The division has allowed its administrative rules to expire as of July 23, 1990. A six year time limit is imposed under RSA 541-A:2 IV, after which time an agency is required to renew its rule in accordance with the proceedings described in RSA 541-A:3. The procedure required to adopt administrative rules normally takes about three months to complete, meaning the division has operated without legitimate rules since July 23, 1990 and will continue to do so for several more months. Secondly, the division has routinely waived its administrative rules by choosing not to follow them in practice, and has not amended or updated the rules since 1984 in spite of significant operational and accounting changes. This leads to unnecessary confusion on the part of state agencies that are expected to abide by the rules published by the division.

RSA 541-A:12 II and IV states that "Rules shall be valid and binding on persons they affect, and shall have the force of law unless amended or revised or unless a court of competent jurisdiction determines otherwise," and further, that "No agency shall grant routine waivers of, or variances from, any provisions of its rules without either amending the rules, or providing by rule for a waiver or variance procedure."

Existing rules contain many provisions that the division is not currently following, some of which it has not followed for some time. Examples include: Adm-Pla 507.05, requiring supervision of receiving programs at the agencies; Adm-Pla 504.04, requiring authorization of estimates on purchase orders by the director of plant and property management; Adm-Pla 502.07, requiring authorization for agencies to use field purchase orders; Adm-Pla 605.04 requiring service contracts to be requisitioned in accordance with normal purchasing procedures through the division; and Adm 315.01 in reference to changes to purchase orders.

The reason given by division officials for not following rules is generally the heavy workload of purchasing activities. The rules on administrative procedure make clear that the proper solution to impractical or outdated rules is to amend them or include a waiver option.

II. ORGANIZATION OF THE PURCHASING FUNCTION (Continued)

The division is currently rewriting its rules which have not been updated since 1984. The division is planning to deemphasize the description of roles for the purchasing personnel, currently a feature of the rules, and instead, incorporate these roles into technical assistance manuals for the division, the agencies, and vendors. A vendor manual had been suggested in our 1984 report; we reported then that 69% of the respondents to a vendor survey we had performed indicated a desire for such a publication. We are encouraged by the division's current efforts to develop this manual and still believe that it will be a help to vendors wanting to do business with the state.

While the three technical assistance manuals would incorporate many of the purchasing procedures now listed in current rules, the procedures would not have the force of law that they would as rules.

RECOMMENDATION # 1

Management of the division should exercise the necessary foresight and direction to ensure that the division operates under administrative rules that are properly executed, current and clearly articulated.

- 1) When the division finds that a rule can no longer be followed or requires change, it should immediately move to change the rule through the provisions of RSA 541-A, rather than ignoring rules when they become obsolete or impractical.
- 2) As the division revises its rules to delete sections that it feels should not be in the rules, it should take care to retain the authority it needs to effectively manage the purchasing function through the rule making process.

OBSERVATION # 2

CONTRACT PROVISIONS

Several significant and material clauses recommended by the American Bar Association are not included in contracts used by the division. New Hampshire's purchasing contracts do not contain provisions dealing with "stop work orders", "liquidated damages", and "termination for the convenience of the state".

II. ORGANIZATION OF THE PURCHASING FUNCTION (Continued)

Terms and conditions not only serve as the general principles on which the agreement between the state and a vendor rests, but also as a protection for the state in case the agreement for some reason is not kept.

In our 1984 report, we reported that the American Bar Association in its *Model Procurement Code for State and Local Governments* offered specific terms that it recommended be incorporated into all purchasing contracts. Absent from the contracts used by the division were provisions dealing with stop work orders (when work stoppage may be required for reasons such as advances in the state of the art, production modifications, engineering changes, or realignment of programs); liquidated damages (when the contractor is given a notice of delay or nonperformance and fails to cure in the time specified, the contractor shall be liable for damages); and termination for the convenience of the state (when the interests of the state require that a contract be terminated in whole or in part).

RECOMMENDATION # 2

Since upcoming changes in purchasing rules will likely require changes to the purchasing contract terms and conditions, we again urge the division to consider adding the above provisions to purchasing contracts with the assistance and advice of the attorney general's office.

III. PREPROCUREMENT AND SOLICITATION PROCESS

In order for an efficient system of purchasing to operate, the division must determine the best means for purchasing products. RSA 21-I:11, III requires competitive bidding for all purchases made by the division with the primary exception being purchases that are less than \$2,000. Planning the method of purchases and, in some cases, prescheduling purchases to enhance competition and exploit the benefits of buying in quantity are key elements of the division's purchasing role. Several mechanisms exist that the division can use in purchasing commodities or services. The following table outlines the various options:

<u>Table of Purchasing Mechanisms Used by the Division</u>		
<u>Purchasing Mechanism</u>	<u>When Used</u>	<u>Example</u>
1) +Statewide contracts-commodities (Agency orders)	When Commodities will likely be purchased in large quantities by many agencies.	Office furniture
2) **Statewide contracts-services	When Services will likely be used by many agencies.	Elevator repair
3) +Proposals (formal bids)	When an agency needs commodities that can be purchased in quantity or a commodity that is valued over \$2,000.	Special computer equipment
4) +Pre-scheduled purchases	When commodities can be purchased in quantity on an anticipated calendar basis.	Clothing
5) Open-end purchase orders	When an agency anticipates purchasing several items from a vendor and wants a negotiated quantity discount.	Small hardware items
6) Price agreements	When a less formal arrangement than a contract is needed, whereby a vendor provides goods at a specified price. The agreement can be ended at any time by either party.	Pharmaceuticals
7) Telephone quotes (3 required)	When purchases are generally estimated to be less than \$1,000.	Automotive parts
8) Written quotes (3 required)	When purchases are generally estimated to be between \$1,000 and \$2,000.	Projection equipment
9) Class exceptions	When agencies must purchase commodities that, because they have to be compatible with existing equipment, must be bought from the vendor that makes that product.	Add-on computer equipment
10) Sole source purchases	When an item of supply or brand is procurable from only one source or has a fixed market price from all sources.	Tucker Sno-cat
11) Estimates	When a small cost item is to be purchased (usually <\$1,000) and there is not enough time to get quotes; when there is an emergency; when the quantity of a commodity is indeterminable.	Ceiling tiles, Lumber
+ Competitive Bidding		
* Service contracts for a particular agency are the responsibility of that agency.		

III. PREPROCUREMENT AND SOLICITATION PROCESS (Continued)

In deciding which purchasing mechanism to use, the division's purchasing personnel consider several factors, including:

- the quantity being bought,
- the number of agencies that need the commodity,
- the urgency of the need,
- the availability of suppliers, and
- the likely cost of the purchase.

For more complicated purchases, the division must sometimes develop detailed specifications for items being purchased. This requires additional planning and processing time, because the purchasing agent works with the vendors and the agency to determine what the agency need is and how vendors can best fill it.

Effective purchasing, of necessity, requires sound planning and scheduling techniques prior to procuring goods and services. In 1984, we commented on the division's level of management involvement on a statewide basis as being non-existent, because of its perception by state agencies as serving merely as a service agency. While it is true that the division does provide a service for state agencies, it could also contribute to overall management planning by contributing vital information on forecasting the costs of commodities and services based on its knowledge of market conditions and material availability. The National Association of State Purchasing Officials advocates the involvement of purchasing officials in the budgeting process and in planning new buildings and facilities as expert contributors in forecasting realistic costs and delivery schedules for all sorts of supplies, materials and equipment.

The division agrees that it can contribute to improved budgeting and forecasting because of their continuing presence in the marketplace and foresees playing a greater role on an overall statewide level in many respects related to the procurement of goods and services.

In our 1984 report we suggested that the division should examine historical data in an effort to identify additional commodities that would lend themselves to scheduled purchasing. Since then the division has increased the number of scheduled purchases from nine to sixteen different commodities during the year. As we can see in the list of purchasing mechanisms on page twenty, prescheduled purchasing is only one of several mechanisms that the division can and does use to try to increase competition. We observed the following conditions relating to the solicitation or pricing of purchases.

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OBSERVATION # 3
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ESTIMATED PURCHASE ORDERS

In our sample of seventy-six fiscal year 1989 requisitions less than or equal to \$2,000, eighteen, or (24%), of the resulting purchase orders were based on estimates rather than firm prices.

III. PREPROCUREMENT AND SOLICITATION PROCESS (Continued)

According to division personnel, the reason for using estimates is the heavy workload of purchases and efforts by the staff to move purchases along through the system. However, when estimates are used instead of price quotes, the bureau loses the benefit of competitive pricing. The rules in effect at the time of this audit allowed estimates only if authorized by the division director, but most estimates in our sample of requisitions less than or equal to \$2,000 did not appear to be approved by anyone but the purchasing agent.

In March of this year, the Administrator issued a memo instructing purchasing agents not to use estimates for purchases over \$500 unless they are pre-approved by the Administrator. We view this as a positive development that will lead to better pricing.

RECOMMENDATION # 3

The division should try to avoid using estimates and should attempt to obtain three quotes whenever possible for small purchases that are not subject to a formal bid process.

OBSERVATION # 4

PRICE AGREEMENTS

Price agreements are being made for purchases exceeding \$1,000 with no review beyond the buyer. The rules do not currently contain a provision authorizing price agreements and non-competitive purchases exceeding \$1,000 require the approval of the director of the Division of Plant and Property Management (Adm-Pla 504.05).

Price agreements are being made between purchasing agents and vendors for certain commodities. The agreements, while like statewide contracts in their use by agencies, are less formal than contracts in that either party may terminate the agreement at any time. Although these agreements speed the procurement process for commodities such as drugs, orders could become quite sizeable without having ever been reviewed at a level above that of the purchasing agent.

RECOMMENDATION # 4

The ability of the division to seek price agreements should be stated in the rules, and agreements estimated to exceed \$1,000 should be reviewed by the Administrator of Purchase and Property.

III. PREPROCUREMENT AND SOLICITATION PROCESS (Continued)

OBSERVATION # 5

ACCEPTABLE BRANDS LISTS

Although the rules encourage the Bureau of Purchase and Property to evaluate commodities for possible inclusion on "acceptable brands lists" as an alternative to developing detailed specifications on many different products, the bureau currently has only three such lists on file.

Where several competing products exist for a particular need, acceptable brands lists could prove useful by reducing the amount of time needed for developing specifications and product testing once the initial lists are devised. Rule Adm-Pla 503.06 encourages the use of such lists "when it is determined to be in the best interest of the state."

RECOMMENDATION # 5

The bureau should explore ways to increase its use of acceptable brands lists by first determining the types of commodities that would be well suited to such treatment, and then by developing a plan for doing the necessary testing to develop these lists.

IV. ACQUISITION PROCESS

Once the appropriate purchasing mechanism is decided on for a purchase request, the Division follows the procedures for that mechanism in order to complete the purchase. Competitive bidding adds time to the purchasing process, as each of the requisition, vendor solicitation, formal bid, and bid award steps lengthens the time necessary to secure a final bid. In fiscal year 1989, the bureau processed 70% of all its purchases in less than 30 days and 91% of its purchases in less than 60 days shown in the following table. In our survey of state agencies, 82% of respondents felt that purchase orders were processed in a reasonable amount of time.

Table of Purchase Order Processing Time
For Purchases Made in Fiscal Year 1989

<u>Processing Time in Days</u>	<u>Count</u>	<u>Total Value</u>	<u>Average Value</u>
Less than 30	8896	\$ 15,755,083	\$ 1,771
30 - 59	2557	8,407,961	\$ 3,288
60 - 89	741	7,894,742	\$ 10,654
90 - 119	245	2,555,369	\$ 10,430
120 - 149	108	1,322,471	\$ 12,245
150 - 179	28	126,722	\$ 4,526
180 - 209	45	2,732,542	\$ 60,723
210 or more	<u>12</u>	<u>267,265</u>	\$ 22,272
Total	<u>12,632</u>	<u>\$ 39,062,155</u>	

Each purchase is documented by standard forms. The requisition shows the agency's request, the purchase order shows what was ordered, and formal bid contract and proposal forms with terms and conditions legally bind the vendors to their offered bids. Invoices received from the vendors show what they billed the state, and payment vouchers show what the state paid the vendors. Documentation is handled by the Division of Plant and Property Management from the point of requisition until the purchase is made. After the purchase is complete, the Division of Accounting Services keeps invoice and payment documentation, along with documentation of changes to the amount of the purchase.

Our 1984 report contained some suggestions relating to the acquisition process. We recommended that the division expand its vendor list that, at the time, contained 2,700 vendors. The list now has over 11,000 vendors. We also recommended wider distribution of knowledge about open-end contracts, as well as consideration of more purchasing responsibility for small purchases at the agency level. In the section on State Agency Purchases in this report we recommend the field purchase order limit be increased to allow for more small purchase authority at the agency level.

IV. ACQUISITION PROCESS (Continued)

For statewide contracts, agency orders serve as the requisition and the purchase order, thus speeding the process for frequently purchased commodities. In fiscal year 1989, \$5.9 million, or 15%, of the purchases were made from statewide contracts.

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OBSERVATION # 6
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PURCHASE ORDER NUMBER CONTROL

The division does not sequentially control and account for the issuance of purchase orders, thus reducing the effectiveness of internal control.

Sound internal controls include numbering and accounting for purchase orders to guard against loss, unauthorized use, or misdirection of the orders. While all purchase orders are numbered, they are not accounted for or sequentially controlled by the division. The division processed 12,632 purchase orders during fiscal year 1989.

RECOMMENDATION # 6

The division should account for purchase orders in numerical sequence to reduce the likelihood that they could be used for unauthorized purposes.

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OBSERVATION # 7
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STATEWIDE CONTRACT AMOUNTS

The division does not receive any information as to the amount of money charged to statewide contracts during the time they are open, nor does it review invoice data for purchases it has approved to ensure that vendors are billing according to the terms of the contract.

The division has over eighty statewide contracts and price agreements for commodities in effect for use by state and local agencies and non-profit organizations. These are highly desirable because they reduce unnecessary administrative costs for highly repetitive purchasing activities. While the division negotiates these agreements with the vendors, and therefore must come up with initial estimates of contract use, it does not receive any information as to the amount of money that has been charged to the contract during the time it is in effect. Having such information would help the division better estimate the extent of agency use of the contract for the next time around. Better information could lead to bigger discounts for large contracts, and possibly the chance for more and better competition and fewer contract extensions.

IV. ACQUISITION PROCESS (Continued)

Additionally, six out of twenty-eight agencies in our survey, or 22%, reported that they are not adequately informed of active statewide contracts, and fifteen, or 54%, thought that statewide contracts should be used to a greater extent than they are. These same sentiments were expressed in 1984 by state agencies.

Because the Division of Accounting Services handles purchasing documentation after the purchase order is sent out, the Division of Plant and Property Management does not see the results of its purchases and is not a participant in the full purchasing cycle. While it may not be necessary as a matter of course to have payment information on all purchases, review of such information might be useful in tracking the history of past purchases of certain commodities or of performance by certain vendors.

RECOMMENDATION # 7

The division should arrange to have a report of contract activity transmitted to it for current contracts approaching the end of their effective dates. The division should also periodically ensure that purchasing terms and conditions are met by matching invoices and receiving reports to agency orders.

V. STATE AGENCY PURCHASES-DELEGATED PURCHASING AUTHORITY

While non-exempt agencies must defer to the Division of Plant and Property Management when making commodity purchases of significant value, an agency is authorized to purchase items costing up to \$100, as well as services needed by that agency regardless of the cost of such services. RSA 21-I:17-a authorizes field purchase orders up to \$100, while RSA 21-I:11 allows the division to purchase services for all state departments and agencies, but does not allow the division to purchase services provided only to one agency. An agency, therefore, may purchase services when they are only for that agency.

The purchasing mechanisms available to agencies are listed below:

<u>Table of Purchasing Mechanisms Available to Agencies</u>		
<u>Purchasing Mechanism</u>	<u>When Used</u>	<u>Example</u>
1) Field Purchase Order	When purchase is valued at \$100 or less.	Mops, dust pans
2) Service contract	When an agency needs a service particular to that agency.	Consultants of any kind

In 1984, we observed that agencies were misusing field purchase orders by dividing purchases worth over \$100 into multiple field purchase orders that was largely attributed to the additional administrative time required to request purchases through the division. Concerning professional service contracts, we recommended that a study be done to evaluate the extent to which the state used these contracts, as well as the procedures used in securing these services. We found in 1990 that our comments regarding these matters still apply.

OBSERVATION # 8

MISUSE OF FIELD PURCHASE ORDERS

Several agencies are using multiple field purchase orders to circumvent the \$100 limit. Agencies are also purchasing items directly from vendors instead of at the central warehouse or from vendors under state contract.

In a check of field purchase orders involving hundreds of judgmentally sampled orders issued within the last year, sampled by both the LBA and the division, we discovered 127 examples of multiple field purchase orders sent to the same vendor totalling amounts above the \$100 limit established in RSA 21-I:17-a. Additionally, the division's review noted 95 examples where agencies were purchasing from vendors items that were available at the warehouse or on contract.

V. STATE AGENCY PURCHASES-DELEGATED PURCHASING AUTHORITY (Continued)

RECOMMENDATION # 8	The division should schedule a periodic review of field purchase orders and should enforce compliance with the regulations relating to the acceptable usage of field purchase orders. Agencies that do not comply should not be permitted to use field purchase orders.
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OBSERVATION #9	<u>FIELD PURCHASE ORDER LIMIT</u> Although consumer prices have more than doubled since 1973, according to the consumer price index, the field purchase order limit has remained at \$100 since then.
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The \$100 limit for a field purchase order is established in RSA 21-I:17-a. The amount was last changed in 1973, when it was doubled from \$50. Eighty percent of the agencies responding to our purchasing survey felt that the field purchase order limit should at least be doubled from its present level.

Purchase orders for small dollar amounts comprise a significant percentage of the requisitions handled by the division. While these orders take much less time to process than formal bid proposals, they still add substantially to the workload of the division. See the table below for a breakdown of the number of purchase orders by dollar amount. Purchase orders for \$250 or less account for 31% of the activity but only 1.3% of the total value of purchases made during fiscal year 1989.

Distribution of Purchase Orders by Value
For Purchases Made in Fiscal Year 1989

<u>Category of Purchase Orders by Value</u>	<u>Count</u>	<u>%</u>	<u>Total Value of Purchase Orders In Category</u>	<u>%</u>
\$ 0 - 100	1,485	12	\$ 88,992	.2
100.01 - 150	962	8	122,867	.3
150.01 - 200	810	6	144,685	.4
200.01 - 250	672	5	153,330	.4
250.01 - 500	2,382	19	876,890	2.2
500.01 - 1,000	2,434	19	1,797,741	5.0
1,000.01 - 2,000	1,473	11	2,128,533	5.5
2,000.01 - 5,000	1,267	10	4,039,188	10.0
5,000.01 - 10,000	574	5	4,062,988	10.0
Above 10,000	<u>573</u>	<u>5</u>	<u>25,646,941</u>	<u>66.0</u>
Totals	<u>12,632</u>	<u>100</u>	<u>\$ 39,062,155</u>	<u>100.0</u>

V. STATE AGENCY PURCHASES-DELEGATED PURCHASING AUTHORITY (Continued)

RECOMMENDATION #9

The division should explore the feasibility of raising the limit of the field purchase order. In addition to allowing agencies to buy more with field purchase orders, this would also help reduce the workload of the bureau and allow for greater scrutiny of large dollar purchases and overall management oversight of purchasing activities.

OBSERVATION # 10

PROCUREMENT OF SERVICE CONTRACTS

The study of professional service contracts recommended by our office in 1984 has not been performed. Given the high dollar volume of services procured by the state, (\$35 million for the six months ended December 31, 1989), we believe that DAS does not provide an appropriate level of direction, oversight and assistance to the agencies they are directed to assist within the context of RSA 21-I:6(VI) and RSA 21-I:11 as amended. Based on our review of 76 service contracts approved during March and April 1990 with a total value of \$5.8 million, \$2.1 million, or 36%, were not procured in accordance with competitive bidding requirements.

In 1984, we recommended study and evaluation of the extent to which the state uses professional services, as well as the solicitation, evaluation, and contract award procedures used to secure these services. The director of the Division of Plant and Property Management at that time responded that he "thoroughly" agreed with our findings and would assist and participate in such a study. However, to date, no study has been done.

Our current review of service contracts and the level of assistance, direction and oversight related to the procurement of these services leaves us with the same concerns that we reported in 1984. We continue to maintain that this is an area deserving of greater scrutiny, oversight, direction and participation on the part of Department of Administrative Services, especially in light of the statutory amendment to RSA 21-I:11 I(f) & II in 1986 and the responsibilities assigned to the department in RSA 21-I:6 (VI).

V. STATE AGENCY PURCHASES-DELEGATED PURCHASING AUTHORITY (Continued)

RSA 21-I:6 (VI) assigns responsibility to the Department of Administrative Services' Budget Unit to "Consult with the respective executive heads of state departments, agencies, boards and commissions, relative to the establishment, supervision and maintenance of uniform and effective business records, **business practices, and business management, and provide the necessary direction to insure that all manual of procedure requirements are complied with.**" (emphasis added)

The budget unit exercises this responsibility, as it relates to service contracts, by reviewing all requests for service contracts submitted by individual state agencies to ensure that the request for services conforms with the requirements set forth in section Adm. 311.07 SERVICE CONTRACTS of the NH Code of Administrative Rules. The rules state that "agreements for services shall be cleared by the department of administrative services" after considering the availability of funding sources, the nature of the services rendered, compliance with competitive bidding requirements, payment schedules, service dates, and other pertinent information. Once the review is complete, any request over \$1,000 (\$500 for personnel services) is passed on to Governor and Council for final approval.

In 1986, RSA 21-I:11 was amended by adding paragraph I(f) and amending paragraph II to authorize the Division of Plant and Property Management to purchase services for all departments and agencies of the state, including but not restricted to credit card agreements, elevator maintenance, hazardous waste testing and removal, janitorial services, laboratory services, rubbish removal, security services, snow removal, soil testing, transportation, office machine maintenance, vehicle repair, vehicle rental and leasing, and warehousing; however, the division has been involved in service contracts to a very limited degree. During fiscal year 1989 they processed twelve agreements with a total value of \$93,453. Clearly the General Court was recognizing the contribution that the division could make to more economical and efficient procurement of services by assigning this responsibility to the division when services are needed by more than one agency of state government.

In general, we believe that DAS does not provide an appropriate level of direction, oversight and assistance to the agencies they are directed to assist within the context of RSA 21-I:6(VI) relative to the procurement of services. Additionally, the department has not taken an aggressive position in response to the additional responsibility assigned to it in RSA 21-I:11 as amended in 1986. The procurement of services can be a complex process, easily subject to abuse, mismanagement and confusion in many respects. The risk of mismanaging service procurements is compounded by the high level of activity in this area and the large dollars associated with professional services.

V. STATE AGENCY PURCHASES-DELEGATED PURCHASING AUTHORITY (Continued)

To determine the extent of service contracts procured by individual state agencies in fiscal year 1990, we compiled a list of all service contracts approved by Governor and Council for the six months ending December 31, 1989. During this six month period Governor and Council approved approximately 500 contracts totalling over \$35 million involving almost every agency in the state. (Contracts for community mental health centers and area agencies were excluded from this analysis.) This compares with \$39 million in state purchases of commodities for the whole year of fiscal 1989. This high level of activity alone, requires that serious attention be directed to the procurement of professional services to reduce the possibility of mismanaging a large pool of public funds. (Refer to Appendix C for a listing of service contracts approved during the first half of fiscal year 1990.)

In specific terms, we believe that individual requests for service contracts need closer review by the budget unit, particularly in regard to competitive bidding requirements. We reviewed documentation on file with the Secretary of State for 76 contracts approved by Governor and Council on March 31, 1990, April 10, 1990 and April 25, 1990 to check for evidence of competitive bidding or justification for non-competitive awards. Of the 76 contracts we reviewed which totalled \$5.8 million, 12 or 16%, made no reference to competitive bidding, or did not include sufficient and complete justification for the absence of competition. These contracts totalled approximately \$2.1 million, or 36% of the total value of the contracts we reviewed.

RECOMMENDATION #10

Agencies are spending a great deal of money on service contracts, however they are not provided with enough guidance and direction to ensure that services are being procured and monitored in an effective manner. We recommend that:

- 1) DAS provide assistance to state agencies to further the effective procurement of professional services. Greater assistance should be provided in the form of a published document (technical manual), establishing guidelines for the procurement of services, including guidelines for preparing requests for proposals, contract monitoring and evaluation, needs assessment criteria and cost comparisons. A well prepared document could serve as a valuable resource and reference manual to state agencies as they proceed through the contracting process.

V. STATE AGENCY PURCHASES-DELEGATED PURCHASING AUTHORITY (Continued)

- 2) Every contract submitted to Governor and Council should have a statement that competitive bidding occurred or a statement justifying why it did not. In the event that competitive bidding did not occur, justification should be predicated on guidance provided by DAS, delineating what is sufficient and complete justification for non-competitive awards as established by administrative rule.
- 3) The department should identify service needs that are common to more than one state agency, and play an aggressive role in the procurement of these services, with the objective of securing the most economical services possible for the state.
- 4) As we recommended in 1984, a comprehensive study should be done to determine "the extent to which the state utilizes professional services and the solicitation, evaluation and contract award procedures incorporated in securing these services." This study should result in an informed understanding of the nature of the state's reliance on private service providers, data on what agencies rely most heavily on private providers and for what purposes, and the overall trend in these procurements.

VI. QUALITY ASSURANCE

The division is responsible for two types of quality assurance in its operations. The first type involves a role external to the division, ensuring that agencies and vendors are properly performing their role in the purchasing process. The second type involves the division's efforts to control its own internal operations and manage its workload effectively.

RSA 21-I:12 and rule Adm-Pla 507.02 make the Bureau of Purchase and Property responsible for the inspection and testing of deliveries of purchased items for compliance with purchase orders. The bureau, as required by Adm-Pla 507.05 is responsible for dealing with complaints that the agencies have with vendors.

In 1984, we recommended that efforts be made to spot check agency receiving and inspection operations. Regarding complaints about vendors we suggested that agencies be encouraged to submit written complaints on unsatisfactory vendor performance, and that the division computerize complaint data. We also recommended that agency and vendor records be routinely reviewed for compliance with the intent, terms and conditions of contracts.

To examine the division's control over its own purchasing operations, we sampled seventy-six requisitions less than or equal to \$2,000 and seventy-five requisitions greater than \$2,000 for fiscal year 1989 using statistical sampling. We checked to make sure that the bidding process was properly followed, that non-competitive purchases were appropriately documented, and that required signatures and reviews of documents were performed. We found that the division generally adhered to established operating procedures throughout the purchasing process. The following observations and recommendations relate to identified weaknesses in quality assurance.

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OBSERVATION #11
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AGENCY INSPECTIONS

The division has not audited or inspected deliveries in a systematic way for years.

While the division has the statutory responsibility to inspect agency deliveries, the inspector position for performing this duty was abolished. Purchasing agents may occasionally check an agency when they get a chance, but this is a rare occurrence. The purpose of inspections is to make sure that vendors are furnishing the commodities according to the purchase order and adhere to specifications. Inspections serve to keep vendors honest and to detect unintended errors on the vendors' part.

RECOMMENDATION #11

The division should consider ways of performing agency inspections at least on a spot check basis or of having this responsibility shifted elsewhere.

VI. QUALITY ASSURANCE (Continued)

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OBSERVATION #12
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COMPLAINT FILE

A central file for complaints about vendors is not currently being kept by the bureau.

When an inspector position existed within the bureau, the inspector was responsible for maintaining a vendor complaint file. The file kept the complaints in one place. Such a file is no longer kept. Instead, purchasing agents keep their own records of complaints. While few written complaints are received by the purchasing agents, a centralized complaint file could make knowledge of problem vendors more widely known and the documentation of the problems leading to complaints more easily retrievable.

RECOMMENDATION #12

The Administrator should consider keeping a file of copies of all the written complaints on vendors so that there is centralized knowledge within the bureau on problem vendors.

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OBSERVATION #13
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FUEL OIL PRICE VERIFICATION

Two out of three large agencies that we tested are not verifying terminal prices for fuel oil purchases.

Purchase orders for fuel oil contain specific language telling the agencies to verify fuel oil purchases at the terminal. We checked with offices of three large agencies and found that two of them were not verifying the price per gallon with the terminal prior to manifesting payment vouchers. Fiscal year 1989 purchase order data lists 358 purchase orders for fuel oil, totalling \$2,354,869. With the large number of vendors and large quantities of oil and dollars involved in fuel purchases, there is a potential for errors or mispricing that should be guarded against.

RECOMMENDATION #13

The division should emphasize the importance of agency verification of fuel oil prices and, to the extent possible, should periodically check to make sure agencies are verifying prices at the terminal prior to processing payment.

VI. QUALITY ASSURANCE (Continued)

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OBSERVATION #14
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COMPUTERIZATION OF OPERATIONS

Purchasing agents presently do not have personal computers available for their use, and data management for the purchasing function is still accomplished using the Liquor Commission's MAPPER information system. Presently, the division is inputting some of the same information into both the integrated financial system and the MAPPER data base. Computer equipment and access to quality operational data can significantly enhance the quality of operational functions in a production-oriented office.

At the time of our 1984 audit, the division was considering how it might automate many of the purchasing functions by expanding use of the state's integrated financial system. In our 1984 audit, we suggested several types of management data that might be included in such a system. We still believe that the division would benefit by expanding the use of data processing and tracking purchasing activities. Some potential benefits include:

- purchasing agents could have an up-to-date list of vendors on hand to obtain quotes from for purchases directly from a terminal;
- the bureau could easily track vendor complaints by flagging vendor codes of problem vendors;
- the bureau could store bid award history information on various commodities, vendors, and response rates to requests for bids;
- the bureau could track changes to purchase order amounts that occur during the course of the purchasing process;
- the bureau could keep track of statewide contract totals;
- the bureau could match vendors up with the specific commodities they sell; and
- the bureau could control its own data management functions in connection with the integrated financial system, while discontinuing use of the Liquor Commission's MAPPER system and eliminate the dual entry of data that is presently required; and
- the bureau could capture data to quantify the extent to which purchasing activities results from competitive bidding versus sole source purchases or other limitations that prevent competition from taking place.

VI. QUALITY ASSURANCE (Continued)

RECOMMENDATION #14

The bureau should make renewed efforts to justify its need to automate purchasing operations in its next budget request and to study how computerization might be achieved in the most cost-effective manner. Dual entry of the same information into two different systems should be eliminated.

OBSERVATION #15

TRAINING

None of the purchasing agents has had any formal training to advance professional competence in the field of public sector procurement and only one has had some brief on-the-job training.

Another element of the quality control function is training. Training, particularly in a multi-step paper processing environment with varying degrees of managerial latitude, can improve standardization and consistency of activities, while also allowing for new ideas to surface that might improve the process. The bureau has stated that funding and staffing levels restrict training efforts and that the technical assistance manual, currently being written, will help to improve operational standardization. While a manual would help to detail procedures, training would help put them into practice. Practical applications, novel approaches, and the benefits to be gained by talking about and sharing experiences and ways of operating are all elements of training that contribute to a better understanding of the job and efficient and effective ways of doing it.

RECOMMENDATION #15

The bureau should consider providing training opportunities for staff members that encourage and support the level of training necessary to achieve professional designation as a certified public procurement officer. In addition to formal training, the administrator should conduct periodic staff meetings to discuss operational procedures, problem areas, and possible operational improvements within the bureau.

VII. PROPERTY AND INVENTORY MANAGEMENT

Among the responsibilities of the division relating to property and inventory management are equipment inventory and reporting, surplus distribution, inventories of real property and physical plant, and warehouse operations. RSA 21-I:11 lists these responsibilities.

Our 1984 report addressed each of these subjects. In 1984, we reported that less than half of all state agencies were submitting required inventory forms for property and equipment, and we recommended that the division contact delinquent agencies and enforce compliance. Regarding surplus property, we reported that procedures were needed to actively identify surplus property at state agencies and to control surplus replacement property. Additionally, we stated that the state auction sales and receipts should be monitored. We observed that records for real property and physical plant did not provide the information necessary to comply with generally accepted accounting principles. Finally, we suggested that the division review its warehouse operations, because we noted agency dissatisfaction at that time with what was stocked at the warehouse.

Since 1984, the division has made improvements in each of these areas; however, implementation of the following observations and recommendations could lead to further improvements:

OBSERVATION #16

EQUIPMENT INVENTORY REPORTING

While agencies' reporting of equipment inventories has improved, the bureau does not verify this information, and the agencies are not required to retain documentation substantiating the reported value of equipment. Also, the threshold level for classifying an item as equipment has been \$100 since 1977.

New Hampshire rules Adm-Pla 506.02 and 506.03 require that an initial inventory of equipment be completed by agencies and that an annual inventory be completed and reported to the division. While the percentage of agencies failing to report as required has diminished from 56% in 1984 to 12% in 1988 and 1989, the division is not testing agency data for accuracy, and agencies often do not keep records substantiating the reported amount of equipment inventories. Also, ten of fourteen audits of state agencies that LBA issued during a sixteen-month period ending April 1990 contained observations relating to deficiencies in equipment recording and reporting practices.

VII. PROPERTY AND INVENTORY MANAGEMENT (Continued)

RECOMMENDATION #16

The division should, through its monitoring and rule making, ensure that agencies maintain accurate, well-documented and verifiable equipment inventory records. Also, the division should consider raising the \$100 equipment threshold taking into consideration the effects of inflation and the time and effort necessary to inventory, tag and continually track items of relatively small value.

████████████████████
OBSERVATION #17
████████████████████

INVENTORY OF REAL PROPERTY AND PHYSICAL PLANT
The inventory of real property and physical plant does not provide sufficient information to support the reported value of fixed assets.

Since 1984, when we reported this same deficiency, some progress has been made in the state's attempts to report fixed assets. A fixed asset module was developed for the integrated financial system that was brought on line in 1986. However, the module has only been installed on a test basis, and the accounting for fixed assets still depends on manual compilation by agencies. Since the reported value of assets in the fixed asset account group cannot be verified or substantiated by the auditors, it remains as the only qualification in the auditors report on the financial statements included in the comprehensive annual financial report. Removal of the auditor's qualification could have favorable implications for the state's bond rating.

RECOMMENDATION #17

The department should implement the integrated financial system's fixed asset module statewide and should consider raising the threshold levels at which fixed assets are reported in the comprehensive annual financial report for the purpose of eliminating the auditor's qualification. Raising the threshold level would reduce the number of assets reported but would retain most of the value in the fixed asset account group.

VII. PROPERTY AND INVENTORY MANAGEMENT (Continued)

██████████
OBSERVATION #18
██████████

SURPLUS PROPERTY

Many state agency officials believe that they are not adequately informed about the availability of surplus items.

Although our concerns about auction monitoring in our prior report have been addressed by the division, there still appears to be some agency dissatisfaction with the surplus distribution process. In our survey of agency officials, when asked if they believed they were adequately informed about the availability of usable surplus items, seventeen of twenty-eight respondents (61%) replied that they did not believe they were.

It should also be noted, however, that keeping track of agency equipment, the subject of the last observation, is the essential first step in an effective surplus program. The surplus information that each agency generates contributes to the database of information across all agencies regarding what surplus equipment is available.

RECOMMENDATION #18

The division should let agencies know the general categories of items that are regularly received as surplus and should remind agencies that 1) the White Farm has regular service hours, and 2) agencies can leave a list of needed items with surplus program staff so that the staff can contact them if the items come in. Also, agencies should check for items to be surplused when they perform their annual equipment inventory.

██████████
OBSERVATION #19
██████████

WAREHOUSE INVENTORY CONTROLS

The warehouse database management system for inventory needs controls in three key areas: access to the system, segregation of accounting duties, and storage of backup disks.

Since 1984, the warehouse has improved many aspects of its operations. Some evidence of this was shown in our agency survey, as 82% of the respondents expressed satisfaction with the quality and diversity of warehouse supplies. The product line has been increased substantially since 1984, and many cities, towns, and non-profit agencies are now using the warehouse. Currently, the warehouse carries over 500 products.

VII. PROPERTY AND INVENTORY MANAGEMENT (Continued)

The warehouse tracks and prices its inventory with a personal computer and a database software system. In examining the inventory control process, we noted that the system needed controls in three areas:

- 1) Physical access to the system is not restricted to prevent unauthorized use. The system has no access controls such as user identification numbers or a computer log.
- 2) Inventory control duties are not segregated. One warehouse person prepares orders for shipping, performs physical inventories, inputs transactions into the computer, and inputs adjustments into the database. A potential exists for unauthorized use of assets and unlikely detection should this occur.
- 3) Backup disks are stored in a disk file on the counter next to the computer. If an incident occurred that damaged the computer's disk storage, the backup storage would likely be damaged as well.

RECOMMENDATION # 19

To tighten up warehouse controls, the division should 1) program the database so that users will have to log on; 2) segregate warehouse duties; and 3) store the backup disks away from the computer in a fireproof safe.

████████████████████
OBSERVATION # 20
████████████████████

WAREHOUSE DATA RECONCILIATION

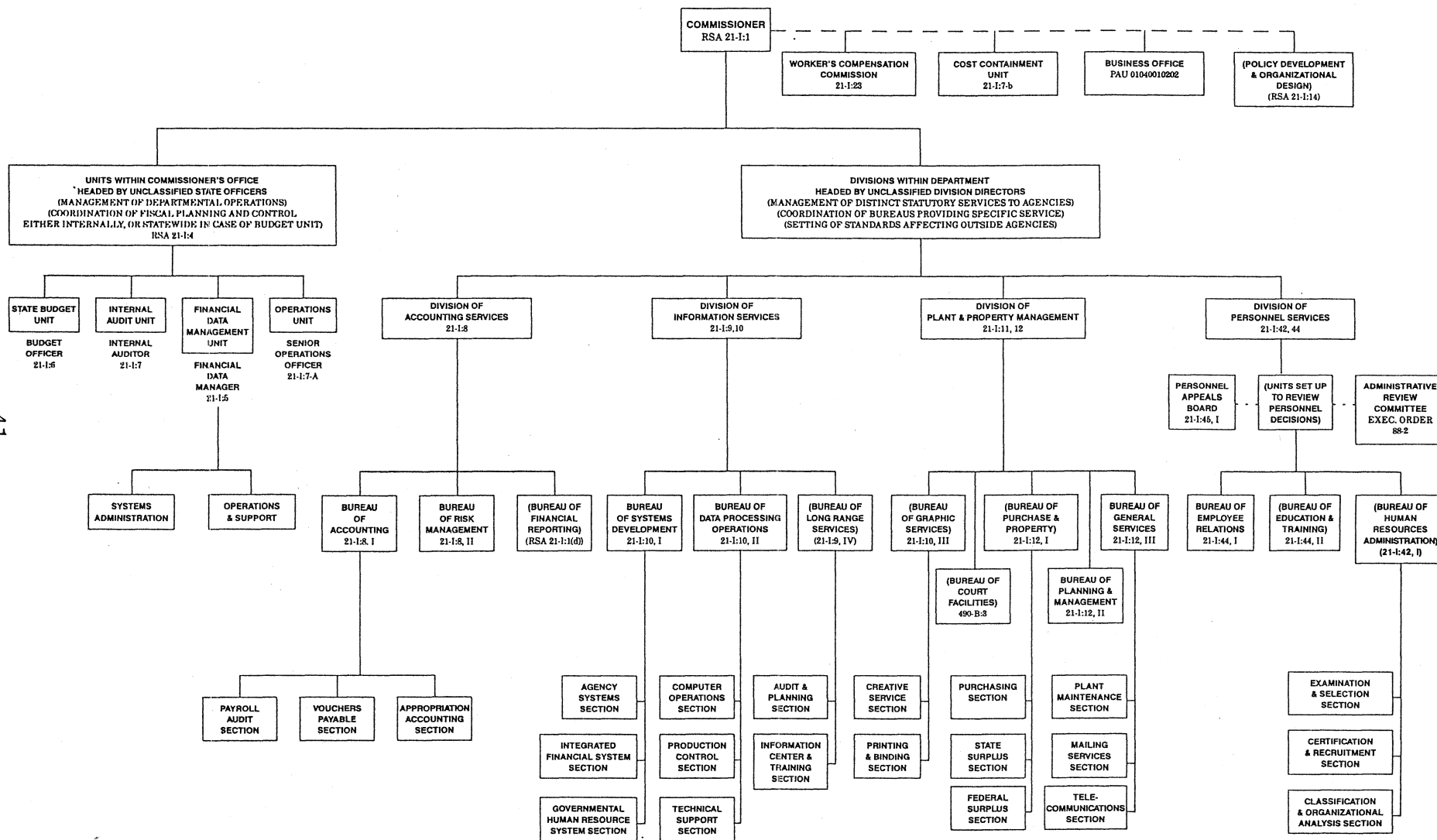
The division does not reconcile data from the in-house computer system with that of the integrated financial system.

Currently, data from both the in-house computer system and the integrated financial system are reconciled to the detail backup, but not to each other. Data from the two systems should be reconciled to ensure that all transactions entered into one system are entered into the other in the same manner.

RECOMMENDATION #20

The division should continue to reconcile the in-house system data to the individual transactions daily, as well as reconciling an in-house system monthly report to the integrated financial system monthly report.

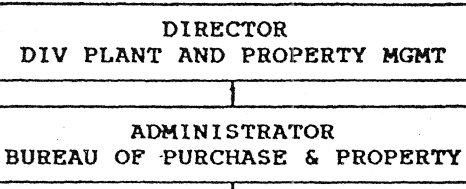
ADMINISTRATIVE SERVICES ORGANIZATIONAL CHART



41

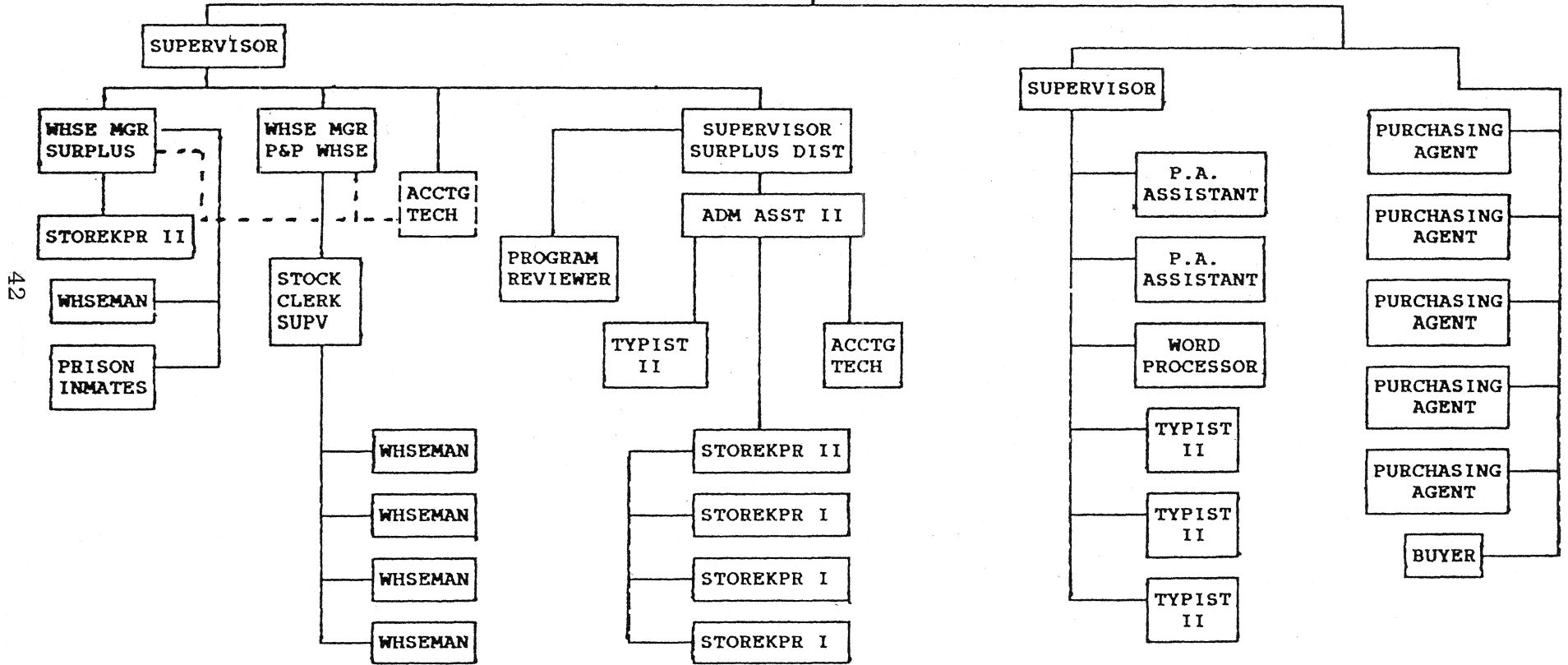
Source: Department of Administrative Services

BUREAU OF PURCHASE AND PROPERTY



MATERIAL MGMT & SURPLUS

PURCHASING



Source: Department of Administrative Services

STATE OF NEW HAMPSHIRE
IBA - AUDIT DIVISION
STATE AGENCY QUESTIONNAIRE - PURCHASING

INTERACTION WITH BUREAU OF PURCHASE AND PROPERTY

- 1) Do you believe that your agency's requisitions and agency orders are processed within a reasonable period of time by the Bureau of Purchase and Property?

YES 23 NO 2 NEITHER 3 BLANKS 0

- 2) Do you receive cooperation from Bureau of Purchase and Property personnel in processing requisitions and agency orders?

YES 26 NO 0 NEITHER 1 BLANKS 1

- 3) Do you receive adequate assistance from the Bureau of Purchase and Property in developing specifications for major purchases?

YES 19 NO 3 NEITHER 6 BLANKS 0

- 4) Do you believe that you receive notification for all open-end contracts available to state agencies?

YES 19 NO 6 NEITHER 3 BLANKS 0

- 5) Are there any commodities that are not now part of open-end contracts that you believe should be?

YES 15 NO 7 NEITHER 3 BLANKS 3

- 6A) Do you believe that you are adequately informed about the availability of surplus items that your agency could use?

YES 9 NO 17 NEITHER 1 BLANKS 1

- 6B) Do you have a clear understanding of how items are surplusd through the Bureau of Purchase and Property?

YES 23 NO 5 NEITHER 0 BLANKS 0

VENDOR PERFORMANCE

7) Are you generally satisfied with the quality of purchased products?

YES 27 NO 1 NEITHER 0 BLANKS 0

8) Are you generally satisfied with vendor delivery time?

YES 20-1/2 NO 3-1/2 NEITHER 2 BLANKS 2

9) Have you filed any vendor complaint forms or memos of complaint with the Bureau of Purchase and Property within the last two years?

YES 13 NO 15 NEITHER 0 BLANKS 0

b) Were complaints resolved satisfactorily?

YES 9 NO 2 NEITHER 1 BLANKS 16

c) Did you receive adequate assistance from the Bureau of Purchase and Property in resolving complaints?

YES 8-1/2 NO 1-1/2 NEITHER 1 BLANKS 17

10) Were there times when you believe you could have filed complaints against vendors but chose not to?

YES 8 NO 17 NEITHER 0 BLANKS 3

AGENCY PROCEDURES

11) Are all purchased goods being inspected as they are received?

YES 27 NO 1 NEITHER 0 BLANKS 0

12A) Does your agency initiate service contracts for services such as consulting, advertising, legal, engineering, maintenance, janitorial, or other services?

YES 27 NO 1 NEITHER 0 BLANKS 0

12B) N/A

AGENCY PROCEDURES

12C) Does your agency ever request assistance from the Division of Plant and Property Management when issuing service contracts?

YES 10 NO 15 NEITHER 2 BLANKS 1

13) Are there any commodities that your agency purchases regularly that could be purchased on a prescheduled basis?

YES 10 NO 11 NEITHER 2 BLANKS 5

CENTRAL WAREHOUSE

14) Do you use the warehouse regularly for ordering supplies?

YES 26 NO 1 NEITHER 0 BLANKS 1

15) Are you satisfied with the quality and diversity of warehouse supplies?

YES 23-1/2 NO 1-1/2 NEITHER 2 BLANKS 1

16) Do you have any suggestions to increase the utilization or convenience of the central warehouse?

YES 6 NO 18 NEITHER 0 BLANKS 4

17) Are there any commodities not currently available at the warehouse that you would like to see added?

YES 7 NO 15 NEITHER 1 BLANKS 5

18) Have you ever ordered any recycled paper products from the warehouse?

YES 16-1/2 NO 7 NEITHER 2-1/2 BLANKS 2

19) Do you plan to order any recycled paper products in the future?

YES 19 NO 3 NEITHER 3 BLANKS 3

FIELD PURCHASE ORDERS

20) Do you have a system in place for monitoring field purchase orders?

YES 25 NO 1 NEITHER 1 BLANKS 1

21) Do you believe that the \$100 maximum for field purchase orders should be increased?

YES 22 NO 5 NEITHER 1 BLANKS 0

OTHER

22) Are you satisfied with the service being provided under the state's office supply contract?

YES 21 NO 2 NEITHER 3 BLANKS 2

23) Do you have any further comments or suggestions regarding the state's purchasing laws, policies, and procedures?

YES 13 NO 13 NEITHER 0 BLANKS 2

COMMENTS TO QUESTION # 23

I would like to see Agency heads given some discretion to purchase small items (under \$50) without a purchase order where FPO's cannot be used locally for the product.

Revolving Fund purchases should be increased to 40.00 or less per store per day. The present limit of 20.00 is not enough for the purchases of small items that our facility needs.

The freight/shipping charges procedure(s).

Its very difficult for small agencies to provide coffee, donuts, etc. to volunteer groups who attend and assist in meetings. These people give us their time, at least we can provide coffee. I find reimbursement to be very bureaucratic.

Raise money limit of items on equipment inventory. We consider credit card contracts of utmost importance. To be able to purchase outside state contract where we know quality and prices are better. Increase service contracts from \$1000 to \$2000 + before going to G&C. Sole source (State contract - one vendor) could create some problems if items are not in stock.

23) Continued

I object to being told that we must purchase items from a contractor when we can find the same quality item for less money by doing our own shopping around and utilizing local sales. (Batteries, VHS tapes, cassette tapes). Prefer a local office supplier like Tom-Ray.

Purchasing staff are very cooperative and helpful. Their efforts enable agencies to obtain goods needed on a timely basis, especially in an emergency situation. It is my understanding that purchasing agents limits on issuing purchase orders based on estimates has been decreased from \$1,000 to \$500. Hopefully, this change will not adversely effect their ability to process orders needed by agencies.

Emergency repairs parts over \$100 need PO, service over \$1000 need PO just plain make it \$1000 per fiscal year per vendor before PO needed for repairs. Getting the PO hard copy back takes a long time. They need more of a clerical staff to push paper work out.

Equipment repairs: present policy is very restrictive due to \$100 limit on parts. Also, we receive 100% cooperation from everyone over at Purchasing. They are very helpful and pleasant to us.

Division directors should be given discretion in approval of purchases and repairs of equipment and vehicles authorized by the legislature. Eliminate filing of S1 forms when using field purchase orders and expendable items. Improve procedures in purchasing items with field purchase orders. In many instances costs for processing purchase orders far exceed the items purchased. Reduce the delays in purchasing computer hardware and software.

Fuel oil contracting procedures should be changed to accommodate the following: bids should be prepared to let contracts by geographic area rather than by individual tanks, bulk vendors should not be allowed to service small tanks; this irritates both the department and the vendor, and smaller tanks should be serviced by locally situated vendors.

Suggest review of a memo from purchasing regarding process for special printing or material orders. Process which could be handled in 1 or 2 days takes up to 5 months if done their way. That is bureaucracy at its finest.

Pleased with cooperative attitude with most buyers in your group. Would like updates on specs. and contract items though.

Departments should have more leeway in specifying sole sources. Frequently it is desirable and economical to stay with one vendor for a period of time. IE - uniforms, etc.

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STATE OF NEW HAMPSHIRE
 PROFESSIONAL SERVICE CONTRACTS APPROVED BY THE GOVERNOR AND COUNCIL
 FOR THE PERIOD 7/1/89 - 12/31/89

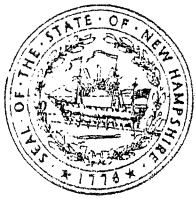
AGENCY	DESIGN/ ENGINEERING	MAINT/SV	LEGAL	M. HEALTH	MEDICAL	TRAINING	REAL ESTATE/ APPRAISAL	LANDSCAPING	CONSULTING	MISC PROF	GRAND TOTAL
Adjutant General	-0-	1,450	-0-	-0-	-0-	-0-	-0-	-0-	-0-	6,850	8,300
Administrative Svcs.	-0-	689,964	-0-	-0-	-0-	-0-	-0-	-0-	2,071,834	217,250	2,979,048
Agriculture	-0-	11,110	-0-	-0-	-0-	-0-	-0-	-0-	-0-	21,414	32,524
Alcohol & Drug Abuse	-0-	-0-	-0-	81,754	100,000	20,429	-0-	-0-	3,600	2,095	207,878
Attorney General	-0-	19,524	2,725,000	-0-	-0-	1,728	-0-	-0-	40,565	1,440	2,788,257
Berlin Vo-Tech	-0-	4,971	-0-	-0-	-0-	2,734	-0-	-0-	-0-	-0-	7,705
Board of Medicine	-0-	-0-	20,000	-0-	-0-	-0-	-0-	-0-	-0-	-0-	20,000
Children & Youth Svcs.	-0-	-0-	19,800	-0-	-0-	60,934	-0-	-0-	-0-	1,111,705	1,192,439
Corrections	-0-	46,369	-0-	-0-	10,000	-0-	-0-	-0-	-0-	2,580	58,949
Council on the Arts	1,500	3,448	-0-	-0-	-0-	13,675	-0-	-0-	-0-	5,368	23,991
D.R.E.D.	-0-	18,496	-0-	-0-	-0-	-0-	-0-	-0-	-0-	1,885,280	1,903,776
Dept. of Revenue	-0-	-0-	-0-	-0-	-0-	4,525	-0-	-0-	-0-	-0-	4,525
DOT	-0-	8,433	-0-	-0-	-0-	-0-	-0-	-0-	-0-	76,566	84,999
DOT-Administration	-0-	11,687	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	11,687
DOT-Aeronautics	-0-	32,830	-0-	-0-	-0-	-0-	-0-	-0-	-0-	17,520	50,350
DOT-Budg. & Finance	-0-	-0-	10,000	-0-	-0-	-0-	-0-	-0-	-0-	-0-	10,000
DOT-Construction	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	24,200	24,200
DOT-Data Management	-0-	287,424	-0-	-0-	-0-	10,600	-0-	-0-	-0-	-0-	298,024
DOT-Environment	82,956	-0-	-0-	-0-	-0-	-0-	-0-	16,203	-0-	-0-	99,159
DOT-Highway Design	5,964,305	1,500	-0-	-0-	-0-	-0-	-0-	-0-	300,000	186,194	6,451,999
DOT-Highway Maint.	-0-	16,583	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	16,583
DOT-Human Resources	-0-	-0-	-0-	-0-	-0-	2,250	-0-	-0-	-0-	10,000	12,250
DOT-Mat. & Research	-0-	6,000	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	6,000
DOT-Mechanical Svcs.	-0-	1,632	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	1,632
DOT-Public Transp.	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	843,081	843,081
DOT-Public Works	1,289,812	-0-	-0-	-0-	-0-	-0-	32,100	-0-	135,000	100,000	1,556,912

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AGENCY	DESIGN/ ENGINEERING	MAINT/SY	LEGAL	M. HEALTH	MEDICAL	TRAINING	REAL ESTATE/ APPRAISAL	LANDSCAPING	CONSULTING	MISC PROF	GRAND TOTAL
NH Hospital	-0-	54,796	-0-	-0-	18,753	-0-	-0-	-0-	-0-	12,840	86,389
Pari-Mutuel	-0-	22,114	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	22,114
Parks & Recreation	-0-	6,748	-0-	-0-	-0-	-0-	3,500	-0-	-0-	-0-	10,248
Plant & Property Mgm.	-0-	1,096	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	1,096
Police Stds. & Trng.	-0-	6,069	-0-	-0-	-0-	57,742	-0-	-0-	-0-	21	63,832
Postsecondary V-T	-0-	20,000	-0-	-0-	-0-	-0-	-0-	-0-	3,000	3,600	26,600
Public Health	-0-	2,825	10,000	328,294	590,887	149,064	-0-	-0-	8,500	119,743	1,209,313
Public Utilities	-0-	12,280	120,000	-0-	-0-	-0-	-0-	-0-	80,000	-0-	212,280
Real Estate	75	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	75
Revenue Administration	-0-	14,848	-0-	-0-	-0-	-0-	36,250	-0-	13,876	1,680	66,654
Safety	-0-	13,353	-0-	-0-	-0-	10,090	-0-	-0-	-0-	34,712	58,155
Securities Reg.	-0-	-0-	40,000	-0-	-0-	-0-	-0-	-0-	-0-	-0-	40,000
State Library	-0-	30,956	-0-	-0-	-0-	-0-	-0-	-0-	-0-	146,910	177,866
State Planning	4,500	28,893	-0-	-0-	-0-	10,000	-0-	-0-	11,585	78,678	133,656
State Port Authority	-0-	2,860	-0-	-0-	-0-	-0-	-0-	-0-	21,395	-0-	24,255
Sweepstakes	-0-	18,988	-0-	-0-	-0-	-0-	-0-	-0-	-0-	6,856	25,844
Tax & Land Appeals	-0-	-0-	5,000	-0-	-0-	-0-	-0-	-0-	-0-	-0-	5,000
Technical Institute	-0-	30,973	-0-	-0-	-0-	3,050	-0-	-0-	-0-	-0-	34,023
Treasury	-0-	20,371	55,000	-0-	-0-	-0-	-0-	-0-	-0-	67,000	142,371
Veterans' Home	-0-	2,380	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	2,380
REPORT TOTALS	<u>\$8,771,928</u>	<u>\$2,702,774</u>	<u>\$3,093,800</u>	<u>\$1,298,051</u>	<u>\$1,544,249</u>	<u>\$2,527,527</u>	<u>\$344,074</u>	<u>\$16,203</u>	<u>\$4,458,997</u>	<u>\$10,706,301</u>	<u>\$35,463,904</u>

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~~GEORGE C. JONES~~
Commissioner

STATE OF NEW HAMPSHIRE
DEPARTMENT of ADMINISTRATIVE SERVICES

OFFICE of the COMMISSIONER
State House Annex - Room 120
Concord, New Hampshire 03301

APPENDIX D

DONALD S. HILL
Assistant Commissioner

October 25, 1990

The Honorable William F. Kidder
Chairman - Fiscal Committee
State House
Concord, New Hampshire 03301

Dear Chairman Kidder:

During the past several months, the Division of Plant and Property Management, Department of Administrative Services, has undergone a review of its purchasing methods by the Legislative Budget Assistant's Office. I am pleased to respond to the recommendations of this audit for the Department of Administrative Services.

The Department recognizes the importance of periodic audit updates to ensure the critical state functions of central purchasing is performed in an efficient and effective manner. The procurement of goods and services with public funds has been a major concern to many states where improprieties have been found. I was pleased that no such concern was raised in this review.

The report does contain observations and recommendations which we have responded to individually and trust will be contained in the audit report. Three of the observations contain much broader implications, and I would like to comment on them in my general comments as follows:

1. The rules of the Division of Plant and Property Management have not been updated and have been allowed to lapse.

The rules did lapse but the Department of Administrative Services has reviewed and updated its rules concerning the Division of Plant and Property Management. The new proposed rules package was submitted to the Administrative Rules Committee on August 24, 1990, and prior to that to LBA for a Fiscal Impact Statement. The entire process should be completed during the month of October and the new rules adopted. We believe the new rules, once implemented, will address many of the comments contained within the report.

Telephone: 603-271-3201
FAX #: 603-271-2361



TTY/TDD 1-800-992-3312 or 225-4033
Relay Service for Deaf/Speech Impaired

2. Inspection of deliveries does not occur.

The testing and inspection process, while a function of effective purchasing administration, was eliminated due to fiscal constraints and the personnel responsible transferred to the purchasing office. This was done to facilitate the purchasing process at a time when in excess of 2,000 agency requisitions were pending. This action has helped to eliminate that bottle-neck and the Division is presently processing agency requisitions in a timely and effective manner.

3. The inventory of real property and physical plant does not provide sufficient information to support the reported value of fixed assets.

The audit report also speaks to deficiencies in the Division's responsibilities relating to property and inventory management. This area has been a source of concern to the State for some time. While the observations are indeed valid, it must be pointed out that the Department of Administrative Services was in the process of moving forward in this area to computerize all fixed asset records and maintain a statewide data base for fixed asset reporting purposes. Funding for this worthwhile project was contained in the State's operating budget to provide computer upgrades, consultants, and other costs to bring the statewide fixed asset records into conformity. Unfortunately, due to the recent fiscal constraints, these monies were eliminated from the budget and this project was placed on hold.

The Department's responses to each audit observation is as follows:

OBSERVATION 1

The Department recognizes the responsibility to update its administrative rules. This task was undertaken beginning in May of 1989 and recently completed. The new rules package was submitted on August 24, 1990, and we are confident the new rules will assist us in addressing the concerns stated in the above referenced observation.

OBSERVATION 2

Upon adoption of the rules package by the rules committee, we will be making changes in conjunction with the Attorney General's Office as many of the terms and conditions may be obsolete or ineffective. The recommendation contained in Observation 2 will be considered and if appropriate added to the standard terms and conditions.

OBSERVATION 3

The process of estimating prices on purchase orders has been changed. Acceptable amounts have been reduced from \$2,000 to \$500.00 and any estimates are now reviewed in total by the Administrator of Purchase and Property.

OBSERVATION 4

Most, if not all, price agreements which are made between purchasing agents and vendors are the result of competitive bidding by public or quasi-public agencies. In many cases, using the example given in the report, drug orders from large manufacturers provide standard pricing to all state and public bodies eligible for this pricing and the price agreement is a mere formality. In all cases where the price agreement does not fall in this category, a review is performed by the Administrator of Purchase and Property.

OBSERVATION 5

The Bureau will explore ways to use an acceptable brands list as contained in the recommendation.

OBSERVATION 6

The Division now provides for sequential number control of all purchase orders.

OBSERVATION 7

The Department accepts the observation as being valid. Current staffing does not allow for collection of the type of information referred to in the recommendation. Information by total purchases by vendor for state agencies is developed on a year-to-year basis.

OBSERVATION 8

The Division is now actively spot-checking the use of field purchase orders to determine not only violation of the \$100.00 limit on the order, but to ensure agencies are utilizing the supplies available from the warehouse section.

OBSERVATION 9

The Division does not support any significant increase in the limit attached to the agency purchasing authority of \$100.00. It is our feeling that an increase could lead to significant purchases which could and should be competitively bid, and also, further circumvent the potential use of statewide contracts which are intended to make the purchasing of small dollar value items easier and more cost effective. It should be further noted that the new rules will allow for greater flexibility in this area.

OBSERVATION 10

(1) The Department recognizes the need for a technical assistance manual for state agencies and will proceed to develop such.

(2) It has been a requirement of the Manual of Procedure that service

contracts be competitively bid or the Governor and Council request contain a justification as to why it was not. We believe this policy has been followed in almost all cases. The auditor has indicated he felt the explanation was not fully contained in the Governor and Council request. It is my opinion that the Governor and Council review of contracts in a public forum is a major reason why this State has not had a major scandal in the awarding of contracts as many states have had. Our Budget Office would like to improve on the assistance provided to the agencies in these matters but we are limited by the resources available.

(3) The Department has attempted to identify major service needs that are common to more than one state agency. We have recently completed a statewide contract with Wang Laboratories which provides for a substantial savings to the state and we are reviewing many more.

(4) We agree that a comprehensive study should be performed and recognize the growing importance of services purchased by the State. Our use of services parallels the growth of this sector in New Hampshire's economy.

OBSERVATION 11

The inspection and testing of delivery of materials to agencies has not been performed due to a lack of staffing. It is our contention that the inspection and testing of materials purchased is a more appropriate function for the using agency.

OBSERVATION 12

The Department accepts this recommendation as valid. A central file of vendor complaints will be established.

OBSERVATION 13

The Division of Plant and Property Management will attempt to spot-check oil prices in conjunction with the Post-Audit Section of the Division of Accounts.

OBSERVATION 14

The Division plans to automate as funding becomes available to provide the necessary equipment and support.

OBSERVATION 15

The Department agrees with this recommendation and feels training would be most advantageous and helpful. Presently, however, funding and staffing does not exist to implement this recommendation.

OBSERVATION 16

Funding to incorporate significant improvements in the area of fixed asset management was contained in prior operating budgets. While we recognize the

importance of maintaining well documented and verifiable equipment records, without significant improvements in the data base and the ability to track real property, fixed assets, etc. the Division will continue to do the best it can with the tools available. We agree with the observation the \$100.00 equipment threshold should be reviewed and increased.

OBSERVATION 17

(See response to Observation 16)

OBSERVATION 18

The Surplus Distribution Section will attempt to increase the flow of information regarding items available for surplus to all state agencies.

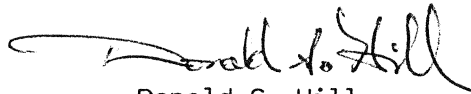
OBSERVATION 19

This recommendation is in the process of being addressed at this time for corrective action.

OBSERVATION 20

This Observation dovetails with Observation 19 and is in the process of being addressed at this time.

Sincerely,



Donald S. Hill
Assistant Commissioner

DSH:gs