

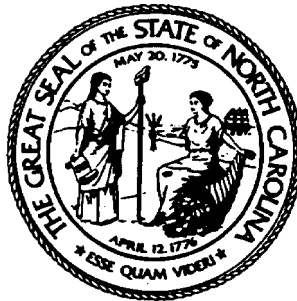
OSBPM

**Evaluation of the Effectiveness and
Efficiency of the Increase of the Purchasing
Benchmark**

As Directed by Section 13, Senate Bill 862,
1997 Session of the
North Carolina General Assembly

April 2001

**Office of State Budget, Planning and
Management**



EXECUTIVE SUMMARY

Section 13 of Senate Bill 862, 1997 Session, requires the Office of State Budget, Planning and Management (OSBPM) to ". . . evaluate the effectiveness and efficiency of the increase of the purchasing benchmark and its delegation to the special responsibility constituent institutions under G.S. 116-31.10 and other agencies under G.S. 143-53.1 and G.S. 143-53(a)(2)." This report is written to provide the General Assembly and interested parties with OSBPM's evaluation of increased purchasing delegation.

Appendix A is a listing of those 22 agencies, universities, community colleges, and local boards of education (LEAs), that have been granted increased purchasing delegation along with the amount of the increased delegation. (Prior delegated amounts were \$10,000 for state agencies and \$35,000 for universities.)

The evaluation period was from July 1, 1996 through December 31, 2000, with Fiscal Year 1996-97 considered the base year. During the evaluation period, state government agencies (including universities, community colleges, and local school systems) procured over \$13.7 billion in goods and services, 23.9% of that amount, or over \$3.28 billion was routed through the Department of Administration Division of Purchase & Contract in the form of 11,987 requisitions.

Legislation directed that the evaluation consider the following factors in determining the effectiveness of the increase in delegation:

- Cost of goods and services purchased (price)
- Administrative (processing) costs
- Effective time for completion of the purchasing process (turnaround time)
- Agency satisfaction
- Vendor satisfaction
- Other

Data collected during the evaluation period indicated the following:

- Distinctions in prices obtained for the same goods and services between agencies with increased delegation and those without were not discernable.
- Administrative, or processing costs, as measured by purchase orders processed per employee hour and the ratio of transaction costs to purchased costs improved over the evaluation period in both agencies with and without increased delegation. Agencies with increased delegation show a somewhat greater improvement.
- Turnaround time to secure goods and services improved over the period for both agencies with and without increased delegation. Again, the agencies with increased delegation experienced slightly greater improvement.
- Agencies, both with and without increased delegation, indicated a high level of satisfaction with their process.
- Vendors, through their lack of complaints and a reduction in formal protests, appeared to be just as satisfied with the increased delegation levels.
- Increasing the amount of purchasing delegation has not been detrimental to state government agencies, vendors or the taxpayers.
- The central purchasing agencies (P&C and ITS) have implemented numerous enhancements to improve central procurement processing including the development and the start of implementation of e-procurement. They have chosen to defer any staffing adjustments during the implementation of these improvements that have occurred during the same time period that increases in purchasing delegation have been awarded to eligible state agencies.
- With the creation of ITS Procurement and Senate Bill 222, 1999 Session, the amount of delegation granted to state agencies is different for information technology items versus other goods and services.

Based on data collected during the evaluation period, enhancements made to the procurement system during the evaluation period, and the implementation of the E-Procurement system, the following recommendations are presented:

- Delegation limits for LEAs, community colleges and state agencies should be increased up to \$250,000 for all goods and services, including information technology purchases, provided that the agencies receiving the increase are approved by P&C as meeting the criteria that have been established.
- As delegated purchasing limits continue to be increased and the recently announced E-Procurement initiative goes forward, the central purchasing agencies (P&C and ITS) should plan to make appropriate adjustments in staffing levels.
- GS 143-53(a)(2) should be modified so that when any state agency (State department, institution, agency, community college, and public school administrative unit) sends a request to P&C to increase their delegation that the state agency be required to also send a copy of the request to OSBPM and the Office of the State Controller (OSC). Further, when P&C determines whether to grant the request, P&C should advise OSBPM and OSC of its decision before notifying the agency of the decision.

INTRODUCTION AND BACKGROUND

Section 1, Senate Bill 862, 1997 Session, provided for an increase in the amount by which institutions within the University of North Carolina may seek and issue competitive bids for goods and services without submitting them to the Purchase & Contract Division in the Department of Administration (P&C). The University of North Carolina General Administration is the approving authority for delegating the appropriate dollar level for each institution. The amount of the increased delegation ranges from \$35,000 to \$250,000. Section 4 of the same bill allows the remaining government agencies, upon approval of an application to P&C, to be given increased purchasing delegation from \$10,000 to \$25,000.

Section 13 of Senate Bill 862, 1997 Session, requires the Office of State Budget, Planning and Management (OSBPM) to ". . . evaluate the effectiveness and efficiency of the increase of the purchasing benchmark and its delegation to the special responsibility constituent institutions under G.S. 116-31.10 and other agencies under G.S. 143-53.1 and G.S. 143-53(a)(2). In its evaluation, (OSBPM) shall consider such factors as costs of goods and services purchased, administrative costs, effective time for completion of the purchasing process, agency satisfaction, vendor reactions, and other factors it deems appropriate. (OSBPM) shall report its findings and recommendations to the General Assembly by April 15, 2001." This report is written to provide the General Assembly and interested parties with OSBPM's evaluation of increased purchasing delegation as prescribed in Senate Bill 862, 1997 Session.

Upon passage of this legislation, 18 members of the University System (which includes the School of Math and Science), 30 state agencies, 58 community colleges, and 117 local public school systems (LEAs) became eligible to apply for the increased delegation. Appendix A is a listing of those agencies that have been granted increased purchasing delegation along with the amount of the increased delegation.

(NOTE: Since the above legislation was passed, Senate Bill 222, 1999 Session, removed some of the legislated responsibility for purchasing information technology goods and services from P&C and placed them in Information Technology Services (ITS). This report has considered the changes as the recommendations were developed.)

SURVEY

In gathering salient data and information to conduct this evaluation, OSBPM developed various survey instruments. The survey used most frequently for fiscal years FY '96-'97 thru FY '99-'00 (Appendix B) to gain the necessary information to draw objective conclusions included questions enabling the use of a five-level scale (a rating scale on a continuum from low to high) with responses ranging from "Dissatisfied" to "Satisfied." The majority of the questions asked on the FY '96-'97 survey were the same as asked in the subsequent years of the study. The surveys were sent to the purchasing officer for each agency/university/college/LEA. Response levels were assigned points as follows:

Dissatisfied = 1
Moderately Satisfied = 3
Satisfied = 5.

The levels of 2 and 4 were mid points between dissatisfied and moderately satisfied, and moderately satisfied and satisfied, respectively. The compiled responses to the survey questions asked via the survey for each year beginning FY '96-'97 thru FY '99-'00 are listed in Appendix C.

The methodology used to determine the recommendations contained in this report was to use data from the base year (prior to the increased delegation, which was FY '96-'97) and compare it to data from subsequent fiscal years '97-'98, '98-'99, and '99-'00. Any significant changes in purchasing operations between the base year and FY '99-'00 were analyzed to determine to what extent the changes were the result of the increased delegation. P&C and Information Technology Service's Procurement unit (ITS

Procurement) operations were reviewed to understand what effect, if any, the increased delegation had on the operation of P&C and ITS Procurement.

It is noteworthy that P&C has implemented changes in the N.C. Administrative Code (1 NCAC 5B SubChapter .1600) that addresses increased delegation issues for agencies that were/are eligible to apply for the increased delegation.

FINDINGS

Base year data for FY '96-'97 from P&C reveals that approximately 4,216 requisitions were awarded by P&C for state agencies, community colleges, public schools and universities to convert to purchase orders. This resulted in \$889 million worth of requisitions approved for purchase. There were 119,040 hours of P&C staff time expended on purchasing responsibilities (this equates to 66.7 positions). Data for FY '99-'00 reveals that 2,061 requisitions were awarded by P&C for these same agencies resulting in \$602 million worth of requisitions approved for purchase. P&C staff time was 113,280 hours (or approximately 63.4 positions). For FY '96-'97, 54 term contracts totaling \$345 million were negotiated, and for FY '99-'00 22 term contracts totaling \$49 million were negotiated. The tables below provide data for the four years from '96-'97 to '99-'00. The data is displayed by agency group and shows total dollar value of purchase orders issued by agency group, the total number of requisitions and associated dollar awarded by P&C, and what percentage these numbers represent for each category.

Purchase Orders Awarded by State Agencies

	1996-1997 (base year)	1997-1998	1998-1999	1999-2000
Purchase Orders	154,806	153,997	160,861	151,372
Value of Purchase Orders Issued	\$1,151,249,069	\$1,056,641,607	\$1,836,555,184	\$2,040,436,519
Percent of Value of all Purchase Orders Issued by the State	38%	32%	49%	56%
Requisitions Approved by P&C	2,388	2,431	1,551	2,061
Requisitions Approved by ITS	n/a	n/a	n/a	105
Value of Requisitions Approved by P&C	\$402,717,486	\$653,768,031	\$426,866,387	\$602,469,828
Value of Requisitions Approved by ITS	n/a	n/a	n/a	\$30,368,399
Percent of Value of Requisitions to Purchase Orders for State Agencies	35.0%	61.9%	23.2%	29.5%

Data Source: P&C, State Controller, and individual agencies

n/a – ITS was not responsible for statewide procurement until FY '99-'00.

Purchase Orders Awarded by Universities

	1996-1997 (base year)	1997-1998	1998-1999	1999-2000
Purchase Orders	153,603	153,022	149,465	134,594
Value of Purchase Orders Issued	\$502,479,605	\$567,228,960	\$463,568,210	\$436,315,907
Percent of Value of all Purchase Orders Issued by the State	17%	17%	12%	12%
Requisitions Awarded by P&C	746	484	152	133
Value of Requisitions Awarded by P&C	\$83,185,023	\$82,012,356	\$63,214,489	\$57,945,215
Percent of Value of Requisitions to Purchase Orders for Universities	16.6%	14.4%	13.6%	13.3%

Data Source: P&C and universities

Purchase Orders Awarded by Community Colleges

	1996-1997 (base year)	1997-1998	1998-1999	1999-2000
Purchase Orders	*	*	168,958	72,103**
Value of Purchase Orders Issued	\$145,101,539	\$153,863,713	\$151,573,354	\$150,028,293
Percent of Value of all Purchase Orders Issued by the State	5%	5%	4%	4%
Requisitions Awarded by P&C	217	190	186	194
Value of Requisitions Awarded by P&C	\$6,899,301	\$5,583,184	\$8,123,909	\$6,005,963
Percent of Value of Requisitions to Purchase Orders for Community Colleges	4.8%	3.6%	5.3%	4.0%

- - *Data was not gathered FY '96-'97 and FY '97-'98.
- **Only 60 percentage of community colleges reported

Data Source: P&C and community colleges

Purchase Orders Awarded by LEA's

	1996-1997 (base year)	1997-1998	1998-1999	1999-2000
Purchase Orders	*	*	*	*
Value of Purchase Orders Issued	\$1,224,357,144	\$1,513,197,120	\$1,325,211,555	\$993,508,599
Percent of Value of all Purchase Orders Issued by the State	40%	46%	35%	27%
Requisitions Awarded by P&C	865	497	219	261
Value of Requisitions Awarded by P&C	\$51,673,038	\$32,783,417	\$7,859,622	\$12,254,494
Percent of Value of Requisitions to Purchase Orders for LEA's	4.2%	2.2%	0.6%	1.2%

* - Data was not gathered for fiscal years '96-'97, '97-'98, '98-'99, or 99-00.
Data Source: P&C

Appendix E provides a breakdown of the number and value of purchase orders issued for each of the four fiscal years by monetary groupings for state agencies (not including the Department of Transportation). It is noteworthy that an average of 601 purchase orders were issued for purchases exceeding \$250,000, and that the average value of those purchase orders (\$743,396,878) represented 58% of all purchases made.

A waiver of competitive bidding can be awarded if a vendor is the sole supplier of a good or there is an emergency or pressing need for a good. For any contract amount over a purchasing agency's delegation, the waiver of competitive bidding request must be sent to P&C and ultimately to the Board of Awards for approval. For contract amounts within an agency's delegated amount, the agency is responsible for approving or not approving a waiver of competitive bid. The three tables below indicate the number of waivers of competitive bidding that were granted by each agency group for the past three years beginning FY '97-'98. (Data for FY '96-'97 was not gathered.)

Total Waivers Awarded by Agency Group for FY '97-'98

Agency Grouping	Number of Waivers	Percent of Waivers to Purchase Orders Issued	Total Value of Waivers
Community Colleges	27	*	\$986,792
Public Schools	56	*	\$3,450,466
State Agencies	290	.19 %	\$33,110,345
Universities	73	.05 %	\$7,375,600
Unknown	23	*	\$2,595,328
Total	469		\$47,518,532

Source of Data: P&C

* - data was not gathered for this year

Total Waivers Awarded by Agency Group for FY '98-'99

Agency Grouping	Count of Waivers	Percent of Waivers to Purchase Orders Issued	Total Value of Waivers
Community Colleges	56	.03 %	\$1,567,822
Public Schools	49	*	\$3,081,797
State Agencies	292	.18 %	\$31,115,098
Universities	38	.03 %	\$10,024,545
Unknown	65	n/a	\$12,690,599
Total	500		\$58,479,862

Source of Data: P&C

n/a – Not Applicable

* - data was not gathered for this year

Total Waivers Awarded by Agency Group for FY '99-'00

Agency Grouping	Count of Waivers	Percent of Waivers to Purchase Orders Issued	Total Value of Waivers
Community Colleges	42	.06 %	\$1,770,487
Public Schools	54	*	\$2,806,796
State Agencies	471	.31 %	\$132,197,395
Universities	45	.03 %	\$14,461,547
Unknown	2	n/a	\$141,907
Total	614		\$151,378,132

Source of Data: P&C and ITS

* - data was not gathered for this year

The number of protests filed by vendors is another aspect of the purchasing activity that OSBPM has examined. P&C indicates that for the base year, FY '96-'97, there were a total of 39 protests filed, 56 were filed in FY '97-'98, 17 in FY '98-'99, and 27 in FY '99-'00. The tables below indicate a breakdown of the protests for the years of the evaluation study.

Protests Filed by Agency Groups

Agency Grouping	FY '96-'97 (base year)	FY '97-'98	FY '98-'99	FY '99-'00
Community Colleges	1	1	1	1
Public Schools	1	5	2	0
State Agencies	26	36	13	22
Universities	8	10	0	3
Unknown	2	4	0	0
Protests Withdrawn	1	0	1	1
Total	39	56	17	27

Source of Data: P&C and ITS

ANALYSIS

Individual LEAs issue very few purchase orders in excess of \$10,000. Also, LEAs' use of P&C services are mainly to purchase negotiated term contracts. It is therefore extremely difficult to determine the effects of increased purchasing delegation for the purchasing program for an LEA since the vast majority of their purchase orders are under \$10,000. Also, when reviewing the survey information from the LEAs there appear to be inconsistencies in data reporting to the extent that to use the information may not present an accurate picture of purchasing activity for LEAs as a group. Apparently, instructions on how to complete their surveys was misinterpreted, which means that using their data might not represent accurate conclusions. Only four of the 117 LEAs (Cleveland, Guilford, New Hanover and Wake counties) have applied for and received increased delegation, and this does not provide a sufficient sample size to draw valid conclusions.

There has been only one community college (College of Albemarle) to apply and receive increased delegation. This does not provide a sufficient amount of data upon which to base a defensible conclusion concerning the impact that increased purchasing delegation has had on community colleges.

Based upon these factors, further evaluation of increasing the purchasing delegation in this report does not include data from LEAs or the Community College System. However, there is sufficient data from state agencies and universities upon which to evaluate the impact of increased purchasing delegation. Most of the purchasing principles that apply to state agencies and universities that are used in this report should also apply to LEAs and community colleges.

Number of Agencies/Universities/Community Colleges/Public Schools with Increased Delegation

Applications for an increase in purchasing delegation to P&C from state agencies, community colleges, and LEAs seem low with only five state agencies with the increased delegation, one community college, and four LEAs to date. Within the state agency grouping, the three largest departments along with two others have applied for and been granted increased delegation but other departments have not applied. The primary reason(s) given for this low number of applications are 1) the departments do not feel that they have sufficient staff/personnel to carry out the delegation, and 2) the agencies are satisfied with their delegated amount. Only four state agencies with increased delegation (departments of Correction (DOC), Environment and Natural Resources (DENR), Transportation (DOT), and Administration (DOA)) will be used for analysis purposes in this report since the data impact from those agencies can be reviewed for one or more complete years. The Department of Agriculture and Consumer Services only had increased delegation for four months in this last fiscal year.

Within the University System, all but one institution has applied for increased delegation. Therefore, to date there are three institutions that have not been granted an increase in delegation above \$35,000. The reason for two not being given the full \$250,000 is generally related to compliance audit findings and the other institution does not want an increase in purchasing delegation.

Community Colleges, as a group, indicated that the reasons more have not applied for the increase is that the current delegated amount is sufficient for their purchasing needs, P&C can negotiate better rates with the contractors, and P&C holds the expertise that they need for large purchases.

Cost of Goods and Services Purchased

State agencies and universities do not maintain databases or filing systems that would enable a complete evaluation of whether agencies and universities with increased delegation purchased the same goods/services for equal or better prices than when P&C purchased those same goods/services. However, three state departments (DENR, DOC, and DOT) provided a sampling of common commodities that had been purchased by routing the requests through P&C and later by the department without

routing the requests through P&C (Appendix D). The data reveals that there have not been significant price differences in purchases of the common commodities.

Protests

P&C expressed the concern that the number of protests filed by vendors was a factor that should be considered when looking at cost of goods and services purchased. In the table below are the results of protests filed for state agencies for the base year (FY '96-'97) and the most recent year (FY '99-'00). The results are grouped according to those state agencies granted an increase in purchasing delegation and those not yet granted an increase in purchasing delegation.

Protests Filed (State Agencies)

	FY '96-'97			FY '99-'00		
	No. P.O.s Issued	No. Protests Filed	No. P.O.s Issued per Protest	No. P.O.s Issued	No. Protests Filed	No. P.O.s Issued per Protest
DOC, DENR, DOT, DOA	88,551	16	5,534	74,147	11	6,740
Other State Agencies	66,255	22	3,011	77,225	15	5,148
Total	154,806	38	4,073	151,372	26	5,822

As the data shows, for protests filed against state agencies with increased delegation, there was a 21.8% increase in the number of purchase orders issued per protest (5,534 to 6,740). For those state agencies without increased delegation, there was an 82.8% increase in the number of purchase orders issued per protest (3,011 to 5,148). Those agencies with increased delegation have a better record concerning protests than non-delegated agencies.

Protests Filed (Universities)

	FY '96-'97			FY '99-'00		
	No. P.O.s Issued	No. Protests Filed	No. P.O.s Issued per Protest	No. P.O.s Issued	No. Protests Filed	No. P.O.s Issued per Protest
Universities w/Increased delegation	125,961	6	20,994	116,931	3	38,977
Other universities (3)	27,642	2	13,821	17,663	0	n/a
Total	153,603	8	19,200	134,564	3	44,855

As the data shows, for protests filed against universities with increased delegation, there was an 86% increase in the number of purchase orders issued per protest (20,994 to 38,977). For those universities without increased delegation, there were no protests filed for FY '99-'00. In both cases, the low number of protests filed indicates that this is not an area of concern.

Administrative Costs

Purchasing hours expended per purchase order and the ratio of cost to purchasing dollars spent by the various state agency purchasing offices are the measurements used to determine administrative costs to carry out statewide purchasing activities. In some instances, purchasing offices also carry out

other functions than purchasing activities such as warehousing, but for the purpose of this report, only those hours devoted to purchasing activities were reported. The hours/purchase order ratio for the various groupings is the measure used to evaluate the administrative costs for each of the groups.

State Agencies

Purchasing Hours per Purchase Order for State Agencies

	FY '96-'97			FY '99-'00			Percent Improvement
	Purchasing Hrs.	P.O.s Issued	Hrs./P.O	Purchasing Hrs.	P.O.s Issued	Hrs./P.O	
Total for Delegated Agencies w/o allocations	136,792	88,551	1.54	131,926	74,147	1.78	
P&C (allocated)	29,848			36,529			
ITS (allocated)	0			4,690			
Total for Delegated Agencies (incl. P&C and ITS hours)	166,640	88,551	1.88	173,145	74,147	2.33	(23.9%)
Total for Non-delegated Agencies w/o allocations	171,784	66,255	2.59	160,269	77,225	2.08	
P&C (allocated)	37,529			44,466			
ITS (allocated)	0			5,710			
Total for Non Delegated Agencies (incl. P&C and ITS hours)	209,313	66,255	3.15	210,445	77,225	2.72	13.7%
<i>Total</i>	<i>375,953</i>	<i>154,806</i>	<i>2.42</i>	<i>383,590</i>	<i>151,372</i>	<i>2.53</i>	<i>(4.5%)</i>

Note: P&C and ITS allocations were determined by the percent of requests sent by each group of agencies to P&C and ITS. The resulting percent was then used to assign the hours from P&C and ITS.

The number of purchasing hours per purchase order issued increased by 23.9% from FY '96-'97 for those agencies with increased delegation. For the same years, the number of purchasing hours per purchase order for non-delegated agencies improved by 13.7%. However, the delegated agencies still reported fewer hours per purchase order than did the non-delegated agencies (2.33 versus 2.72 hours per purchase order).

Universities

Purchasing Hours per Purchase Order for Universities

University	FY '96-'97			FY '99-'00			Percent Improvement
	Purchasing Hrs.	P.O.s Issued	Hrs./P.O	Purchasing Hrs.	P.O.s Issued	Hrs./P.O	
Total for Delegated Universities w/o allocations	215,227	125,961	1.85	191,624	116,931	1.69	
P&C (allocated)	17,657			6,259			
Total for Delegated Universities (incl. P&C hours)	232,884	125,961	1.85	197,883	116,931	1.69	8.6%
Total for non-delegated universities	41,508			32,816			
P&C (allocated)	3,413			1,104			
Total for Non Delegated Universities (incl. P&C hours)	44,921	27,642	1.63	33,920	17,663	1.92	(17.8%)
<i>Total</i>	<i>277,805</i>	<i>153,603</i>	<i>1.81</i>	<i>231,803</i>	<i>134,594</i>	<i>1.72</i>	<i>4.9%</i>

Note: P&C allocations were determined by the percent of requests sent by each group of agencies to P&C. The resulting percent was then used to assign the hours from P&C.

The number of purchasing hours per purchase order issued improved by 8.6% from FY '96-'97 for those universities with increased delegation. For the same years, the number of purchasing hours per purchase order for non-delegated universities decreased by 17.8%. However, the delegated universities still reported fewer hours per purchase order than did the non-delegated universities (1.69 versus 1.92 hours per purchase order).

Effective Time for Completion of the Purchasing Process

Turnaround time is expressed as the time lapse from receipt of a valid requisition until a purchase order is issued. The unit of measure is stated in number of days.

State Agencies

Average Turnaround Time (Days)

	<i>FY '96-'97</i>		<i>FY '99-'00</i>		<i>Percent Improvement</i>	
	Goods	Services	Goods	Services	Goods	Services
DOC, DENR, DOT, & DOA	19.7	25.4	9.2	14.1	53.3%	44.5%
All other state agencies	10.9	11.2	9.1	13.1	19.8%	(8.0%)
Total	13.6	15.7	9.1	13.3	33.1%	15.3%

The average turnaround time for agencies with the increased delegation to convert a requisition into a purchase order and issue that purchase order, improved substantially from FY '96-'97 to FY '99-'00. The purchase of goods category showed a 53.3% improvement while the purchase of services improved by 44.5%. The turnaround time for agencies without the increased delegation, while not as substantial as with non-delegated agencies, also improved. In the purchase of goods category, average turnaround time improved by 19.8% while the turnaround time in the purchase of services actually declined slightly by 8.0%.

Universities

Average Turnaround Time (Days)

	<i>FY '96-'97</i>		<i>FY '99-'00</i>		<i>Percent Improvement</i>	
	Goods	Services	Goods	Services	Goods	Services
Universities w/increased delegation	12.3	12.5	6.6	7.1	46.3%	43.2%
Universities w/o increased delegation (3)	2.4	3.4	2.0	2.5	16.7%	26.5%
Total	10.5	11.0	6.0	6.6	42.9%	40.0%

The average turnaround time for universities with the increased delegation to convert a requisition into a purchase order and issue that purchase order improved quite well from FY '96-'97 to FY '99-'00. The purchase of goods category showed a 46.3% improvement while the purchase of services improved by 43.2%. The turnaround time for universities without the increased delegation was very good but not as dramatic as for the universities with the increased delegation. In the purchase of goods category, average turnaround time improved 16.7% while the turnaround time in the purchase of services improved 26.5%.

Agency Satisfaction

State Agencies

Prior to receiving increased purchasing delegation, the four state agencies (DOT, DENR, DOC, and DOA) were asked to rate their satisfaction with the purchasing activities and services related to the purchase of open market commodities and services by P&C. Ratings included timeliness, accuracy, consistency, individual team performance, and/or overall customer service. The average score on a scale from “one” (lowest) to “five” (highest) was 3.5. In addition, they were asked to rate how satisfied they are with services related to state term contracts. The average score was 4.3. When asked these same questions after one year of purchasing activity (FY ‘99-’00) with their delegation increased, the average score for P&C for timeliness, accuracy, consistency, individual team performance and/or overall customer service declined slightly to 4.1. During the same year, the three agencies rated P&C 4.5 for services related to state term contracts.

State agencies with increased delegation reported that they are generally pleased with the new increased delegation because it has improved the timeliness in receiving the goods and they feel a higher level of responsibility for the purchasing process. This is evident in the data shown in the two tables above.

State agencies that did not have increased delegation during FY ‘99-’00 indicated that, in general, the reason why they have not applied for increased delegation is because they do not feel they have sufficient staff/personnel to carry out the delegation, and they are satisfied with their current delegated amount. P&C, when asked why more state agencies have not been granted the increase, concurred with these reactions.

Universities

Prior to receiving increased purchasing delegation, the 14 universities were asked to rate their satisfaction with the purchasing of goods and services by P&C. Ratings included timeliness, accuracy, consistency, individual team performance, and/or overall customer service. The average score on a scale from “one” (lowest) to “five” (highest) was 4.2 for goods and 3.5 for services. When asked these same questions after one year of purchasing activity (FY ‘99-’00) with their delegation increased, the average score for P&C for timeliness, accuracy, consistency, individual team performance and/or overall customer service for goods improved to 4.5 and to 4.0 for services.

The universities with increased delegation reported that they are generally pleased with the new increased delegation for the following reasons: 1) a substantial amount of time is saved in purchasing without losing quality, 2) they feel like they have ownership over the process, and 3) there is improved flexibility in being able to purchase goods.

Universities that did not have increased delegation during FY ‘99-’00 indicated that they were generally pleased with their current level of delegation. One institution indicated that they would be applying for increased delegation within in the next year pending the outcome of an audit. UNC-General Administration, when asked why the other universities have not been granted the increase replied that is was mainly due to the results of their compliance audits and staffing issues. UNC-GA indicated that they would continue to work with the institutions to help them obtain increased delegation.

Vendor Reactions

In April 1999 a short survey was sent to 391 vendors that had done business with the State either during 1998 or 1999. Of the 391 vendors contacted, only 34 responded. Based upon this low response, it is difficult to determine statistically how vendors feel about the increased delegation. It was decided that the expense to mail another survey would also be non-productive. However, those agencies that have received delegation have reported that they have not had any adverse reaction from vendors. It could be

logically concluded that since a large percentage of vendors did not respond that they are having little difficulty with the increased delegation of state agencies and universities.

The reduction in the number of protests filed by vendors (see chart on page 7) is another example where vendors do not seem to have any noticeable problems with increased purchasing delegation.

Purchase & Contract Activity

Purchase and Contract, along with ITS Procurement, is the central purchasing authority for all state government agencies, the University System, community colleges, local boards of education. It establishes term purchasing contracts for commonly used items and reviews requests for all purchases from state agencies, universities, community colleges, city and local boards of education when the requests exceed the dollar amount of that agency's delegated limit. Additionally, P&C develops and administers statewide purchasing policies and audits adherence to those policies. Increasingly, the division has been asked to provide training to purchasers throughout the state. To carry out these purchasing responsibilities, the current purchasing staff has 60 positions. Appendix F is an organization chart.

P&C has implemented several improvements in the purchasing system during the evaluation period. The Interactive Purchasing System allows requisitions to be entered into an agency's system and electronically transmitted to P&C. Also, requests for Invitation for Bids (IFB) and Requests for Prices (RFP) are now sent through the Internet. Vendor Link NC allows vendors to register electronically for goods and services of interest to them. P&C then sends e-mail messages to applicable/interested vendors notifying them that there is a solicitation document on the Internet. P&C has also created a Staff Development and Training Specialist position to improve the training services offered to all agencies serviced by P&C. P&C has partnered with OSC and ITS in the development of the E-Procurement system recently announced by the governor. The three tables below indicate the level of activity for P&C for the base year of this study and the subsequent three years.

Requisitions Awarded by Purchase & Contract

	Universities	State Agencies	Community Colleges	LEA's	Total
FY '96-'97	746	2,388	217	865	4,216
FY '97-'98	484	2,431	190	497	3,602
FY '98-'99	152	1,551	186	219	2,108
FY '99-'00	133	1,473	194	261	2,061
% Reduction ('96-'97 vs. '99-'00)	82.2%	38.3%	10.6%	69.8%	51.1%

Value of All Purchase Orders Issued

	Value of P.O.s Issued	Value of Requisitions Awarded by P&C
FY '96-'97	\$3,023,187,357	\$889,598,066
FY '97-'98	\$3,290,931,400	\$1,074,319,176
FY '98-'99	\$3,776,908,303	\$716,482,525
FY '99-'00	\$3,620,289,318	\$602,469,828
Percent Change ('96-'97 vs. '99-'00)	19.8% increase	32.3% decrease

Purchase & Contract Requisitions Processed

	<i>Total P&C Hours</i>	<i>No. of Requisitions Awarded</i>
FY '96-'97	119,040	4,216
FY '97-'98	119,040	3,602
FY '98-'99	113,280	2,108
FY '99-'00	113,280	2,061
Percent Reduction ('96-'97 vs. '99-'00)	4.8% decrease	51.1% decrease

FY '96-97 to FY '99-00 the state has been able to purchase more goods per dollar spent by P&C each year of the study. In FY '96-97 the dollar value purchased per dollar spent by P&C was \$799 whereas in FY '99-00 the dollar value purchased per dollar spent by P&C was \$912. This equates to a 14% increase in the total dollar value of what the state is able to purchase versus the dollar spent by P&C to carry out that purchase.

When comparing FY '96-'97 data with FY '99-'00, there was a reduction in requisitions awarded by P&C (51.1%), coupled with a 19.8% increase in the value of purchase orders issued, and a 32.3% decrease in the value of requisitions awarded. The total staff hours have shown a 4.8% decline precipitated by a transfer of positions to the newly created Historically Underutilized Businesses office.

Information Technology Services Procurement

ITS Procurement was formed as a result of Senate Bill 222, 1999 Session, and began its work January 2000. Its responsibilities are similar to P&C, except ITS is involved only with purchases of information technology (IT) goods and services. Also, it only is responsible for purchases for state government agencies; however, in May 2000, a memorandum of understanding was agreed to by ITS and the University System that ITS would review the universities IT purchases when those purchases exceeded the delegated amounts of the universities. (IT purchases from community colleges, city and local boards of education are still reviewed by P&C.) The current staff of IT Procurement consists of 17 positions, twelve of which deal with statewide procurement and five with ITS purchases. An organization chart is Appendix G. Because this unit has only been in existence for six months of the current fiscal year, activity data is not a part of this report.

CONCLUSIONS

1. Increasing the amount of purchasing delegation has not been detrimental to state government agencies, vendors or the taxpayers. With the changing environment in purchasing practices, increased delegation has allowed state agencies to improve their turnaround time thus enabling them to get their goods and services to the end users sooner.
2. The central purchasing agencies (P&C and ITS) have implemented numerous enhancements to improve central procurement processing including the development and the start of implementation for e-procurement. They have chosen to defer any staffing adjustments during the implementation of these improvements that have occurred during the same period that increases in purchasing delegation have been awarded to eligible state agencies.

3. With the creation of ITS Procurement and Senate Bill 222, 1999 Session, the amount of delegation granted to state agencies is different for information technology items versus other goods and services. Which of the two central purchasing entities (P&C and ITS) reviews information technology requests for state agencies, universities, community colleges, and LEAs is inconsistent. Likewise, the purchasing requests that are subject to review by the Board of Awards also differ. These differences create confusion for the purchasing units throughout state government.

RECOMMENDATIONS

Delegation limits for LEAs, community colleges and state agencies should be increased up to \$250,000 for all goods and services, including information technology purchases.

Each of the applicable entities would continue to need the approval of P&C or ITS for increased delegation. P&C should continue to evaluate such applications based upon criteria currently in use (listed in the Administrative Code) for the \$25,000 limit, and consult with the State Auditor and OSBPM before granting the increased delegation. ITS should either adopt the same criteria or allow P&C the authority to grant the same increased delegation to agencies for procurement of information technology goods and services. The \$250,000 limit should continue to be automatically adjusted biennially based upon changes in the federal Consumer Price Index for all goods and services as the General Statutes currently allow.

Increased delegation should not necessitate an increase in staff for the agencies given all of the recent improvements and enhancements developed by P&C as well as the implementation of E-Procurement and, hopefully, the procurement card.

Because increased delegation offers the advantages of reducing the time for delivery of purchased goods and services while reducing central administration, P&C and ITS should actively encourage agencies to apply for increases in their delegated amounts.

By increasing the delegated limits, further decentralization of the State's purchasing system can occur. According to the National Association of State Procurement Officials, "purchasing should occur as close to the point of need and use as feasible. The dilemma is often in determining what is 'feasible.' Strategic decentralization means extending the reach of feasibility – decentralization of the purchasing process, while maintaining centralized procurement authority and management." There are four core responsibilities that the association recommends that a centralized purchasing staff should have: 1) development of statewide policies to carry out directives and general statutes, 2) maintain professional procurement managers to serve as consultants, instructors to retain control of complex, high risk, high-dollar transactions where trained experts add value, 3) provide ongoing training for the state's procurement personnel, and 4) conduct audit checks and quality assurance reviews to assure compliance with rules, policies and procedures.

As delegated purchasing limits continue to be increased and the recently announced E-Procurement initiative goes forward, the central purchasing agencies (P&C and ITS) should make appropriate adjustments in staffing levels.

Exactly what the optimum staffing levels should be is unclear, but a planned/phased-in reduction of approximately 10% in staffing levels, through attrition, over the three-year implementation period (for E-Procurement) should be obtainable with no adverse effect on the quality of procurement.

General statutes, policies, and procedures for LEAs, community colleges, universities, and state agencies should be consistent regarding purchasing delegation and the central purchasing process.

The different delegations from P&C and ITS create an atmosphere of uncertainty. For example, P&C can grant \$10,000 to \$25,000 purchasing authority to LEAs, community colleges, and state agencies for goods and services, but ITS has granted up to \$35,000 purchasing authority to all state agencies for the purchase of information technology goods and services. For the purchase of information technology goods and services over \$35,000, state agencies and universities send their requests to ITS, but LEAs and community colleges send their information technology requests to P&C. ITS takes all requests that exceed \$100,000 to the Board of Awards, but P&C takes all requests that exceed an agency's delegation to the Board of Awards.

GS 143-53(a)(2) should be modified so that when any state agency (State department, institution, agency, community college, and public school administrative unit) sends a request to P&C to increase their delegation that the state agency be required to also send a copy of the request to OSBPM and the Office of the State Controller (OSC). Further, when P&C determines whether to grant the request, P&C should advise OSBPM and OSC of its decision before notifying the agency of the decision.

Currently the statutes specify that P&C must consult with the State Budget Officer only after P&C has made its decision. The increase of the purchasing delegation along with further decentralization of the purchasing process has the potential for impacting the fiscal, budgetary, and total materials management processes. This recommendation seeks to ensure that the agencies receiving the increased delegation possess not only the required purchasing competencies, but also the fiscal, budgetary, and materials management competencies.

Appendices

APPENDIX A

Delegated Agencies/Date Received

Agency	Delegation Date	Previous Delegated Amount	Current Delegated Amount
Department of Administration	August 1999	\$10,000	\$25,000
Department of Agriculture and Consumer Services	February 2000	\$10,000	\$25,000
Department of Correction	May 1998	\$10,000	\$25,000
Dept. Environment & Natural Resources	July 1999	\$10,000	\$25,000
Dept. of Transportation	June 1999	\$10,000	\$25,000
Cleveland County Schools	November 1999	\$10,000	\$25,000
Guilford County Schools	January 1999	\$10,000	\$25,000
New Hanover County Schools	November 1999	\$10,000	\$25,000
Wake County Schools	May 1999	\$10,000	\$25,000
College of Albemarle	May 1999	\$10,000	\$25,000
Appalachian State University	January 1998	\$35,000	\$150,000
East Carolina University	January 1998	\$35,000	\$250,000
Fayetteville State University	January 1998	\$35,000	\$50,000
North Carolina A&T State University	November 1999	\$35,000	\$100,000
North Carolina School of the Arts	January 1998	\$35,000	\$50,000
North Carolina State University	January 1998	\$35,000	\$250,000
UNC - Asheville	January 1998	\$35,000	\$50,000
UNC - Chapel Hill	January 1998	\$35,000	\$250,000
UNC - Charlotte	January 1998	\$35,000	\$200,000
UNC - Greensboro	January 1998	\$35,000	\$150,000
UNC - Wilmington	January 1998	\$35,000	\$200,000
Western Carolina University	January 1998	\$35,000	\$100,000
Winston Salem State University	January 1998	\$35,000	\$100,000

APPENDIX B

**Office of State Budget, Planning and Management
Increase of the Purchasing Benchmark Evaluation Project**

Survey of State Agencies Relating to Events in FY '99-'00

_____	_____
(Department/Agency Name)	(Date)
_____	_____
(Name of Person Completing this Survey)	(Job Title)

(Telephone Number)	

Due Date: October 20, 2000

Explanations:

Question 13: A sampling from your files is acceptable to generate the answer(s) to these 2 questions. If sampling is done, the sample should consist of at least 15% of all requisitions received in each month of the 12 month period.

Your assistance in completing this questionnaire is appreciated. Please use the back of the page or separate pages if additional space is necessary.

Return surveys to:

Carl L. Byrd or Angela Y. Houston
Office of State Budget, Planning and Management
20320 Mail Service Center
Raleigh, NC 27699-0320
(State Courier #51-01-02)

Increase of the Purchasing Benchmark Evaluation Project

Survey of State Agencies for Events in FY '99-'00

1. Rate your satisfaction with the purchasing activities/service relating to the purchase of open market commodities by the Department of Administration's Division of Purchase and Contract. *(circle one)*
- (dissatisfied) (moderately) (satisfied)
- 1 2 3 4 5**

(NOTE: Satisfaction can include timeliness, accuracy, consistency, individual team performance, and/or overall customer service.)

Please briefly explain your answer:

2. Rate your satisfaction with the purchasing activities/service relating to the purchase of services by the Department of Administration's Division of Purchase and Contract. *(circle one)*
- (dissatisfied) (moderately) (satisfied)
- 1 2 3 4 5**

(NOTE: Satisfaction can include timeliness, accuracy, consistency, individual team performance, and/or overall customer service.)

Please briefly explain your answer:

3. How satisfied are you with services related to state term contracts?

(dissatisfied) (moderately) (satisfied)

1 2 3 4 5

- 4.a. Did you apply to Purchase & Contract Division for increased purchasing delegation during the past fiscal year?

Yes No

- b. Was the application rejected? Yes No

c. If the application was rejected, please explain reasons given.

d. If you did not apply, why? *(Must be completed)*

5. If "No," to question 4a above, do you anticipate applying for delegation?
If so, when? _____

6. If “Yes,” to question 4a above, why did you apply for delegation?

7. If “Yes” to question 4b above, do you plan to apply again?

8. Please indicate why you believe more state agencies have not applied for increased delegation.

9. Rate the degree of difficulty required of P&C to apply for and receive increased delegation. (*circle one*)

(*difficult*)
(*moderate*)
(*easy*)

1
2
3
4
5

Please briefly explain your rating:

10. If your delegated amount was increased to \$25,000 during FY ‘99-‘00, what have been the main benefit(s) in obtaining purchasing delegation (*rank in order, 4 main benefit, 1 least benefit*)?

- Sense of ownership of the process
- Timeliness in receiving goods from vendor
- Less paper work
- Other _____

11. How many purchase orders (*not lines*) did your office issue during FY ‘99-‘00?

Of the above amount, how many were issued based on state term contracts negotiated by P&C?

Of the total amount, how many were processed through P&C?

12. How many hours were specifically dedicated to the purchase of both commodities and contractual services by your purchasing office in FY ‘99-‘00?

13. a. What was the average turnaround time (in working days) for requisitions for goods purchased during FY ‘99-‘00? (*sampling allowed*)

- b. What was the average turnaround time (in working days) for requisitions for services purchased during FY ‘99-‘00? (*sampling allowed*)

14. a. How many competitive bids (Request for Quotations, Invitation for Bids) for open market commodities were issued by your purchasing office in FY ‘99-‘00?

- b. How many competitive bids (Request for Proposals, Request for Quotations) for contractual services were issued by your purchasing office in FY ‘99-‘00?

15. How many formal protests were received by your purchasing office?

16. How many requisitions, RFP's, RFQ's and/or IFB's (etc.) did you send to P&C **during FY '99-'00?**

17. Enclose an organization chart of your purchasing office as of June 30, 2000, showing all positions assigned.

**Compiled Survey Responses
Fiscal Years '96-'97 through '99-'00**

The survey used was an eight question five-level Likert scale instrument with responses ranging from “Dissatisfied” to “Satisfied.” The surveys were sent to the purchasing officer for each agency. Response levels were assigned points as follows:

- Dissatisfied = 1
- Moderately Satisfied = 3
- Satisfied = 5.

The levels of 2 and 4 were mid points between dissatisfied and moderately satisfied, and moderately satisfied and satisfied, respectively. The results for state agencies, community colleges, state universities, and public schools are listed below.

Summary of Qualitative Survey Questions Responses State Agencies

Survey Question	FY 96-97	FY 97-98	FY 98-99	FY 99-00
How satisfied they were with the purchasing activities of goods by P&C	4	4	4	4
How satisfied they were with the purchasing activities of services by P&C	4	4	4	4

Summary of Qualitative Survey Questions Responses Universities

Survey Question	FY 96-97	FY 97-98	FY 98-99	FY 99-00
How satisfied they were with the purchasing activities of goods by P&C	4	4	DNC	5
How satisfied they were with the purchasing activities of services by P&C	4	4	DNC	4

DNC – Did Not Collect data for these years

Summary of Qualitative Survey Questions Responses Community Colleges

Survey Question	FY 96-97	FY 97-98	FY 98-99	FY 99-00
How satisfied they were with the purchasing activities of goods by P&C	4	4	DNC	4
How satisfied they were with the purchasing activities of services by P&C	4	4	DNC	4

DNC – Did Not Collect data for these years

Summary of Qualitative Survey Questions Responses LEA’s

Survey Question	FY 96-97	FY 97-98	FY 98-99	FY 99-00
How satisfied they were with the purchasing activities of goods by P&C	4	DNC	DNC	DNC
How satisfied they were with the purchasing activities of services by P&C	4	DNC	DNC	DNC

DNC – Did Not Collect data for these years

The responses below are quantitative figures as reported by the respondents.

Summary of Quantitative Survey Questions Responses for FY '96-'97, '97-'98

Survey Question	State Agencies	UNC System	Community Colleges
Number of respondents/Total Responses Requested	28/30	17/17	51/58
The number of agencies that have applied for increased delegation	2	15	1
To date, the number of applications that have been rejected	0	3	0
The number of agencies that anticipated applying for delegation in 1997	10	3 (The ones that were previously rejected by the Board of Governors)	4
What respondents perceive to be the greatest benefit in increased delegation	Timeliness in receiving goods from the vendors	Timeliness in receiving goods from the vendors	DNA
Number of Purchase Orders Issued '96-'97	154,806	153,603	DNA
Number of Purchase Orders Issued '97-'98	153,977	153,022	DNA
Total hours expended by each respondent group to convert requisitions to purchase orders	308,576	133,866	256,735
Average turnaround time (days) from receipt of requisitions to issuing purchase orders for goods (mean/median)	13.6/9.7	10.5/5	18.0/10.0
Average turnaround time (days) from receipt of requisitions to issuing purchase orders for services	15.7/12.5	11.0/6	17.0/10.0

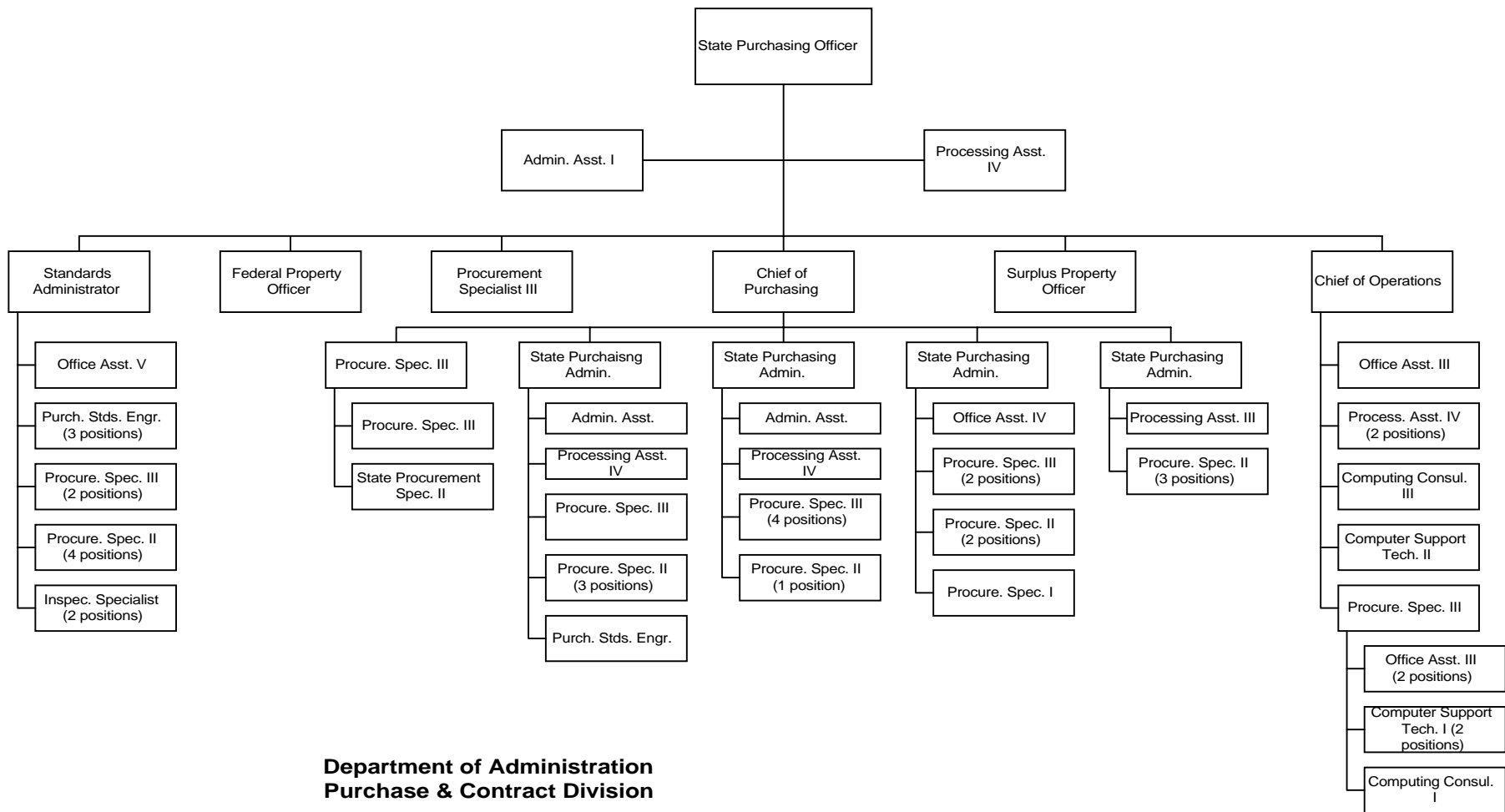
APPENDIX D

Comparison of Commodities Purchased

Dept.	Commodity	Unit Price	
		P&C Bid	Dept. Bid
Envir. & Nat. Resources	25 Ft. Boat	\$13,500.00	\$14,870.00
	Wulfsberg Radio	7,383.00	7,031.00
	.45 Caliber ammunition	0.143	0.149
Correction	Apple jelly	16.25	16.17
	Grape jelly	17.69	18.29
	Mashed potatoes	16.89	21.49
	Salad dressing	9.20	9.23
	Granulated sugar	29.35	28.48
	Styrofoam tray	10.62	11.25
	Tuna	26.40	19.38
	Confection sugar	10.42	10.43
	Pineapple	19.79	17.79
Transportation	Corrugated metal pipe (48" x 10')	27.20	23.80
	Corrugated metal pipe (15" x 10')	4.33	3.78
	Corrugated metal pipe (18" x 10')	5.16	4.50
	Alumin. pipe (15"x 20')	6.62	6.57
	Alumin. pipe (18"x 20')	7.89	7.75
	Alumin. pipe (24" x 20')	13.10	12.87
	Concrete pipe (12" x 4')	5.65	5.33
	Concrete pipe (15" x 4')	6.25	5.56
	Concrete pipe (18" x 4')	8.34	7.30
	Concrete pipe (24" x 4')	11.18	10.70

**Purchase Orders and Purchase Order Values Issued by Monetary Groupings for State Agencies
(not including the Department of Transportation)**

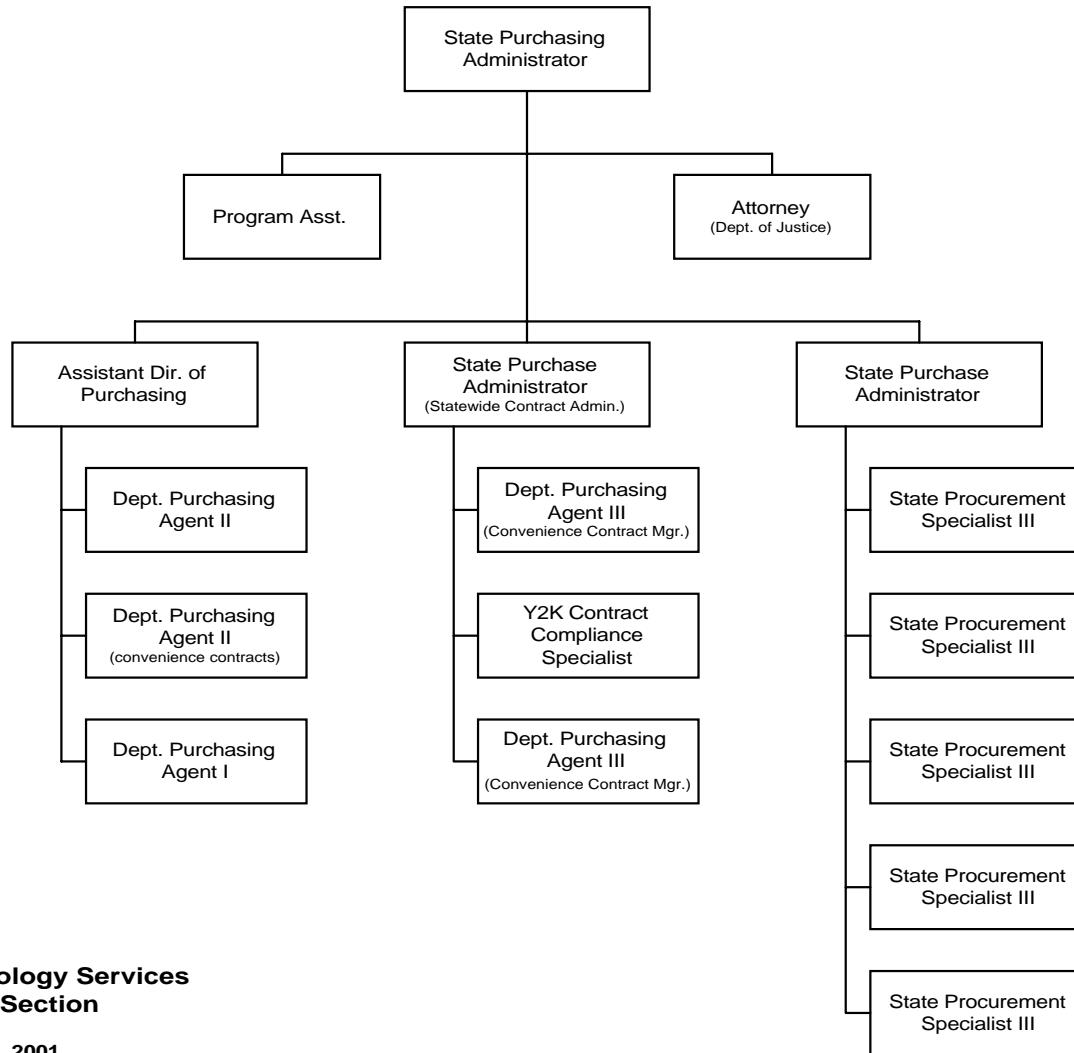
Fiscal Year	Under \$10,000		\$10,000 - \$24,999		\$25,000 - \$34,999		\$35,000 - \$49,999		\$50,000 - \$99,999		\$100,000 - \$249,999		\$250,000 and above		Total Purchasing	
	P.O.s	\$ Value	P.O.s	\$ Value	P.O.s	\$ Value	P.O.s	\$ Value	P.O.s	\$ Value	P.O.s	\$ Value	P.O.s	\$ Value	P.O.s	\$ Value
96-97	102,132	115,700,496	4,208	65,986,651	1,118	32,599,144	929	38,401,935	1,334	92,495,813	724	109,183,776	405	400,722,678	110,850	855,090,493
97-98	110,209	121,932,866	4,972	78,800,835	1,326	39,016,751	1,202	49,937,404	1,662	114,989,401	1,003	152,751,785	589	631,396,505	120,963	1,188,825,547
98-99	106,680	117,014,130	4,467	70,169,947	1,263	37,139,063	1,093	45,483,390	1,778	123,895,574	982	150,377,330	708	816,159,419	116,971	1,360,238,853
99-00	96,806	112,068,862	4,287	67,668,079	1,203	35,602,239	1,103	45,967,885	1,942	135,019,197	1,142	173,340,616	704	1,125,308,912	107,882	1,696,418,685



**Department of Administration
Purchase & Contract Division**

April 5, 2001

APPENDIX F



**Information Technology Services
Purchasing Section**

February 15, 2001