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Review of the Effects of Decentralized Purchasing Authority

REPORT ABSTRACT

- Decentralized purchasing authority has had positive effects, allowing the Department of Management Services (DMS) to cut staff and agencies to save time.
- DMS plays a needed role in state purchasing.
- We recommend that steps be taken to further decentralize state agency purchasing authority.

PURPOSE OF REVIEW

The Joint Legislative Auditing Committee requested our office to evaluate the effects of recent decentralization of purchasing authority to state agencies.

BACKGROUND

State purchasing in Florida has historically been partly decentralized. Individual agencies buy needed goods and services themselves rather than placing orders through a central purchasing entity, as is done in some states. However, the system is also partly centralized. Agencies must generally use state term contracts established by the Department of Management Services when buying commodities and services. These contracts establish prices for items and designate the vendors with whom orders must be placed. Agencies are also required to obtain DMS approval before taking certain purchasing actions.

The Legislature and DMS have moved to further decentralize the state's purchasing system in recent years by delegating more authority to state agencies. Since October 1, 1990, state law or DMS rules and procedures have delegated six types of purchasing authority to agencies:

- **Single Source Purchases.** As of October 1990, the Legislature authorized agencies to purchase commodities from a single source without prior approval from DMS up to the Category Three threshold (currently \$23,000). These purchases are made without soliciting bids when an agency determines that only one vendor offers an item or service.¹
- **Vehicles on State Contract.** Effective July 1991, DMS authorized agencies to buy specified types of motor vehicles without requesting approval. Agencies were previously required to obtain DMS approval before buying any motor vehicle.
- **Local Purchasing Sources.** Effective April 1992, the Legislature authorized agencies to purchase commodities or services up to the Category Two threshold (currently \$11,000) from local purchasing sources instead of state contract vendors when such actions would produce a net cost savings to the state. Effective June 1995, the Legislature expanded this option and authorized agencies to buy information technology resources from local purchasing sources.
- **State Contract Exceptions.** In August 1993, DMS authorized agencies to request authority to buy items up to \$500 that are available on a state term contract from another vendor if the contract

¹ Agencies already had authority to purchase contractual services from a single source up to the Category Three threshold. However, the October 1990 legislation significantly raised the Category Three threshold from \$6,000 to \$20,000, which significantly increased agency authority to make single source contractual services purchases.

items or services do not meet their needs. Agencies formerly had to obtain DMS approval before making any exception purchases. Effective January 1996, DMS raised this authority to \$5,500.

- **Walk-Up Photocopiers.** In August 1993, DMS eliminated its requirement that agencies obtain prior approval before buying walk-up photocopiers.
- **Scheduled Purchasing.** As of July 1994, DMS discontinued its program to coordinate purchases of bulk items such as food and clothing for state institutions. This responsibility was delegated to the Department of Health and Rehabilitative Services (DHRS) and the Department of Corrections (DCOR). The Department of Juvenile Justice (DJJ) received some of DHRS's institutions and now also has this responsibility.

These delegations have given agencies greater authority to make purchases without prior approval from DMS. These actions were intended to give agencies more flexibility to meet specialized needs, cut down on paperwork, and reduce DMS staffing needs. However, concerns have been raised that these actions could be counter-productive by resulting in agencies paying higher prices for items and greater agency workload and staffing needs.

FINDINGS

Decentralizing purchasing authority has saved time for agencies and reduced DMS costs.

Agency purchasing directors reported that the primary benefit of decentralizing purchasing authority was that it saved time in buying needed items and services. This benefit accrues because agencies do not have to wait from one to three weeks for DMS to approve purchasing requests, and because agencies can buy needed items locally instead of waiting for delivery from a state term contract vendor.

Decentralization has produced cost savings. It has been a primary factor in enabling DMS to reduce staffing in the Division of Purchasing by 14 FTEs from 1991-92 through 1994-95. Agencies reported that receiving greater purchasing authority did not require them to increase their own purchasing staff.

Agencies also reported that decentralization has not increased the prices they pay for items because they generally have continued to follow the same purchasing processes when buying goods and services as they used prior to decentralization. However, agencies further reported that decentralization has not reduced paperwork because they must still document and justify their purchasing actions.

Local purchasing source option has not been effective.

The local purchase source option was intended to save money by allowing agencies to buy items from local vendors who offered lower prices than state term contract vendors. However, it is rarely used and has had only a minimal effect. Only two agencies reported using this option in fiscal year 1994-95. Agencies cited several reasons for not using the option. Agencies must develop written justification for each local purchase and file this documentation with the Comptroller; agencies report that this paperwork cost exceeds the savings that can be gained by using the option. Also, s. 287.056, F.S., restricts the option to Florida-domiciled businesses, which prevents agencies from buying items from national discount chains.

Decentralizing scheduled purchasing may have increased costs.

Decentralizing scheduled purchasing enabled DMS to eliminate or transfer seven FTEs that had performed this function. However, this change did not save money but instead shifted workload to the affected agencies. DHRS, DCOR, and DJJ reported that they are using the same number of staff as was used by DMS to perform scheduled purchasing. Consequently, this change has not reduced administrative workload. Also, agencies report that they may be paying higher prices for items than necessary because they are no longer pooling their purchasing power. Whereas DMS formerly combined the agency scheduled purchases when issuing contracts, each agency is now responsible for issuing separate bids for these items. Because individual agencies make smaller orders, they lack the buying power they would have if their purchases were combined. Agency officials favored developing a method where they could combine bid solicitation for commonly used items to obtain lower prices.

Purchasing authority could be further decentralized.

Several agency purchasing actions still require review and approval from DMS. Agencies must obtain prior approval to make contract exception purchases that exceed \$5,500, to establish agency term contracts, and to make single source purchases exceeding \$23,000. Agencies also must obtain DMS approval to buy print shop equipment, purchase motor vehicles that are not available on state contract, waive advertising requirements when soliciting bids, and award contracts when only a sole bidder responds.

These approval requirements could be eliminated to expedite the purchasing process. As shown in Exhibit 1, DMS rarely denies agency requests to take these purchasing actions. For example, during fiscal year 1994-95, DMS did not deny any agency requests to forgo bid advertising, and it approved 98% of the cases when agencies requested permission to accept the single response to a bid. The high approval rates indicate that agencies are generally following statutory and rule requirements in these activities, and thus DMS's review may not be adding value to the process. ²

**Exhibit 1
Department of Management Services
Approved Most Agency Purchasing Requests
During Fiscal Year 1994-95**

Type of Request	Requests Approved	Requests Denied or Withdrawn	Total Agency Requests
Single Bid Response	98%	2%	121
Single Source	94%	6%	1,223
Waiver of Advertising	100%	0%	17
Contract Exception	95%	5%	687
Agency Term Contract	97%	3%	136
Print Shop Equipment	94%	6%	18
Motor Vehicles	100%	<1%	852
Average	96%	4%	3,054

Source: Office of Program Policy and Government Accountability analysis of the Department of Management Services' files.

DMS managers indicated that its review of some agency purchasing activities does add value for the state and should be retained. For example, DMS's

review of single source purchases enables vendors to identify opportunities where they could compete for business, which could lead to lower state prices. Also, a significant portion (17%) of DMS's reviews of motor vehicle purchases resulted in modifications such as providing the agency with specifications to use when soliciting bids. DMS managers further indicated that DMS's reviews of contract exceptions and term contracts identify items that could be added to state term contracts.

However, DMS's review process could be streamlined to expedite agency purchasing. For example, DMS has recently expanded its list of motor vehicle equipment that agencies may buy without DMS approval. Also, effective January 1996, DMS raised agency contract exception authority from \$500 to \$5,500. Similarly, the Legislature could raise the threshold for single source purchases from the current \$23,000 limit. This would streamline the process yet provide for continued review of major purchases that could have significant cost implications. In addition, DMS could eliminate its approval of agency term contract and exception purchases. DMS could obtain information it needs on these activities by periodic agency reporting on these purchases rather than through prior approvals.

Even if lower prices are available, agencies must use state term contract vendors.

With the exception of the local purchase source option, agencies cannot buy products from other than state term contract vendors in order to obtain a lower price from another vendor. DMS managers said that this requirement exists in order to maximize the potential volume discounts that can be realized through state term contracts. The managers also noted that state term contract vendors must generally provide statewide service, and expressed concern that the state would pay higher prices for products if state term contract vendors could not count on a certain level of orders. However, at least four states authorize agencies to make contract exception purchases based on price. DMS could implement this alternative on a trial basis for selected contracts to determine if allowing agencies to buy lower-priced

² In about half of the cases where DMS denied purchasing requests, this action was taken because the agency had been untimely in submitting the paperwork rather than a problem with the requests. The remaining denials were due to reasons such as the item being available from multiple vendors or on a state contract; therefore, agencies did not need to make exception or single source purchases.

items from non-contract vendors produces net cost savings for the state.

DMS provides a needed role in state purchasing.

Although opportunities exist to further decentralize state purchasing, we concluded that DMS should continue to have a central role in the purchasing system. DMS's work to develop detailed specifications and establish state term contracts provide agencies and local governments with substantial price discounts for goods and services, help ensure that state funds are spent on quality items, and avoid the time and paperwork that would be required if each individual agency had to solicit bids and establish their own contracts. Agency purchasing directors also told us that DMS is valuable in providing technical assistance and training to their staff. However, DMS could move further from being a regulatory purchasing entity to an entity that provides assistance to state agencies.

CONCLUSIONS AND RECOMMENDATIONS

Decentralizing state purchasing authority has had generally positive effects, most notably resulting in time savings for state agencies. While DMS plays a needed role in the state's purchasing process, it could further delegate its approval authority for some types of purchasing actions. This would save time for agencies and enable DMS to concentrate its efforts on activities that provide the most benefit for the state. Specifically, we recommend that the Department:

- Eliminate prior approval of agency term contracts, purchases of print shop equipment, and waivers of advertising. DMS should instead require post-reporting of any needed information on these activities.
- Authorize contract exception purchases based on the ability to obtain a lower price for selected contracts on a trial basis.

- Work with the agencies currently performing institutional purchasing to establish an interagency work group to coordinate these purchases and obtain greater cost savings.
- Expand, when feasible, its lists of motor vehicle equipment that does not require DMS approval prior to purchasing.

We also recommend that the Legislature:

- Amend s. 287.056, F.S., to either eliminate the local purchasing source option or streamline the documentation requirements and allow agencies to purchase from any local source, regardless of its domicile.
- Amend s. 287.057(3)(c), F.S., to raise the current threshold for agency approval of single source purchases from the current \$23,000 limit to a higher limit such as the \$75,000 Category Four level. This would reduce DMS's review of single source purchases by more than 50% and allow agencies to make these purchases in a more timely manner.
- Amend s. 287.057(4), F.S., to authorize agencies to procure items without DMS prior approval when a single bid response is received for purchases. This authority should initially be established for a specified purchasing level, such as the \$23,000 Category Three level, and subsequently raised if agencies show that they appropriately handle this responsibility.

AGENCY RESPONSE

The Secretary of the Department of Management Services generally agreed with our recommendations and described actions the Department is taking to address our concerns.

This project was conducted in accordance with generally accepted government auditing standards and included appropriate performance auditing and evaluation methods. Copies of this report may be obtained by telephone (904/488-0021), by FAX (904/487-3804), in person (Claude Pepper Building, Room 312, 111 W. Madison St.), or by mail (OPPAGA Report Production, P.O. Box 1735, Tallahassee, FL 32302).

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