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CENTRALIZED PUBLIC PURCHASING

A Thesis

Presented to

The Faculty of the Political Science Department

San Jose State University

In Partial Fulfillment

of the Requirements for the Degree

Master of Public Administration

by

John Patrick Coggins

December, 1996

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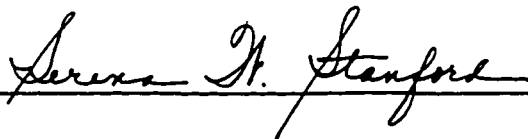


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ABSTRACT
CENTRALIZED PUBLIC PURCHASING

by John Patrick Coggins

Centralized purchasing standardizes bidding and evaluation procedures, achieves economy of scale benefits, and reduces the tendency to award contracts based on personal or political favoritism. An overview of centralized public purchasing, including evolution and principal laws, is first discussed. The purchasing cycle, as it relates to specification development, bidding procedures, bid evaluation, and contract award is then considered in detail. Next, disadvantaged and small business participation, cooperative purchasing, and contracting out services are reviewed. Efficient procurement methods for public works, emergency transactions, and agency liability protection are also examined, followed by ethics and vendor relations. Finally, surplus property disposal and records retention complete the purchasing cycle. This paper concludes with a look at two future directions in purchasing, electronic information transmission and competitive negotiations.

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Centralized Public Purchasing

INTRODUCTION

Systemized purchasing has existed for many years. A purchase order, dating back to approximately 2600 B.C., has been found in the ancient city of El Rash Shamra in Syria (Jennings, 1969). The purchase order was carved on a red clay tablet and was issued for fragrant smooth oil. This was a standing order for which payment in grain was made as oil was delivered.

In 300 B.C., the city-state of Athens employed individuals to procure materials and monitor the construction of buildings, roads, and monuments. These buyers could be considered among the first public purchasing agents. The central coordination of these projects helped complete the basic foundation and infrastructure of early Greece (Jennings, 1969).

Purchasing methods in the United States started out haphazardly. In colonial times, settlers bartered and traded to make ends meet. The federal government, once formed, had a fragmented and decentralized procurement system. Even though contract awards were based on convenience and favoritism, it was a system that worked.

However, purchasing through personal and political favoritism was not always the most cost effective or efficient way to obtain materials and services. Therefore, various procurement acts and regulations were enacted to provide more consistency and make the process impartial. The government eventually centralized its operations under the General

Services Administration and has operated under such a system ever since.

Recently, efforts have been directed at streamlining government. On the federal level, Vice President Al Gore has issued a National Performance Review entitled "From Red Tape to Results: Creating a Government that Works Better and Costs Less." In it, Gore makes over 800 recommendations on how the federal government could operate more efficiently ("National," 1995). Many of the recommendations emphasize the importance of maintaining a strong, centralized purchasing system.

Primary among these recommendations is reducing the "size" of government, size being measured as the number of civil servants employed full-time ("National," 1995). Reduction may be achieved through the elimination of programs, discontinuing services, or contracting out services to the private sector. The federal government is now in the process of determining how, and to what extent, it will reduce its size and implement other changes proposed by the Gore report.

California state purchasing practices have followed an evolution pattern similar to the federal government. Incongruous procedures at the state level have been eliminated through a conversion to centralized purchasing. Moreover, Governor Wilson has recently issued a report (Procurement 2000) recommending ways to further streamline state government. California's evolution started later and has proceeded on a smaller level, but nonetheless is representative of the trend in public purchasing towards a centralized process.

The implications of a centralized purchasing system in public administration are many. Every department within a public organization must eventually deal with the purchase of

materials or services. The allocation of funds through the budget process and their controlled expenditure throughout an agency's fiscal year requires strict adherence to established procurement guidelines. A centralized purchasing system brings consistency and uniform application of value-added principles to the public administration arena.

CALIFORNIA PUBLIC PURCHASING

There was a time when the purchase of supplies and equipment for the operations of California State Government was handled independently by 43 departments and 23 institutions of the state. Department heads from these individual agencies enjoyed the freedom to buy whatever they liked, whenever they wanted, from whoever they chose. Consequently, material for state operations was commonly bought from suppliers who possessed the strongest personal or political influence.

Then Governor James H. Budd, compared prices paid for such commodities as beans, beef, coal oil, eggs, and raisins purchased by different agencies throughout the state and noted the potential for savings given the immense quantities purchased. As a result, in his first biennial message to the legislature in 1897, the governor called for a "central body" to oversee the affairs of the various state departments, including contracts for supplies (Budd, 1897). This concept of a central body was the basis for the principle of central purchasing.

In 1910, Oklahoma's Legislature was the first to officially adopt the principle of central purchasing. Oklahoma created a State Board of Affairs which was authorized to purchase for all state departments, boards, and agencies. The movement toward central purchasing eventually spread to Vermont, New Hampshire, Alabama, West Virginia, and

finally, California (Jennings, 1969).

In 1915, California enacted legislation creating the Department of Purchases headed by the State Purchasing Agent, who was appointed by the Governor and served at his pleasure. Under the provisions of the law, the State Purchasing Agent was given full power and authority to contract for state supplies and services. The only exception was the University of California, which still retains autonomy in contracting for goods and services (“State Purchasing Practices,” 1953).

In October of 1915, purchasing agents in the public sector from throughout the state met in San Diego to start an organization dedicated “to exchange experiences, consult about different methods used, and to consult as a body to get the best benefits possible” (Arhlen, 1992). This organization, called the Public Purchasing Agents of the State of California, initiated the first formal attempt at cooperative purchasing in California. Cooperative purchasing takes the premise of centralized purchasing a step further in that separate organizations, rather than just individual departments within an organization, pool resources to achieve cost saving benefits.

The success of these efforts was noted by Governor Hiram W. Johnson, in his 1917 biennial message to the California State Legislature. The governor noted that prior to creation of the Department of Purchases, “the law governing award of contracts in many instances had been disregarded or by reason of favoritism in the awarding of bids had been rendered nugatory.” He then resoundingly praised the results of centralized, cooperative purchasing: “Where before there were waste and extravagance, today there are economy and

efficiency; where corruption stalked, honesty now rules; where the state was exploited for the benefit and profit of a few, all of the people now reap the advantage” (Johnson, 1917).

In 1921, a reorganization act placed purchasing employees under classified civil service, and made the Purchasing Department a division of Finance, with the Purchasing Agent reporting to the Finance Director. At the time, statutory provisions governing state purchasing were still limited and policy was mostly developed by the Purchasing Agent (“State Purchasing Practices,” 1953).

Governor Edmund G. Brown again reorganized state government in 1959 by transferring the Purchasing Division from the Department of Finance to the Department of General Services. His intention was to group service and supply functions into a single administrative unit which would apply uniform standards and policies to large-scale buying of materials and supplies. The reorganization enabled major program managers to devote more time to the principal missions of their units, rather than to procurement related matters (“The Agency Plan,” 1959). Governor Brown’s approach proved to be advantageous to the goal of centralized purchasing.

When buying duties were dispersed among various departments, favoritism played a key role in award of contracts. Conversely, when buying was centralized, departments concentrated on their own specialized functions, while professional buyers in the central purchasing unit ensured that purchasing and contracting were conducted legally and impartially. Local governmental agencies that followed suit by adopting centralized purchasing systems eliminated many of the problems associated with preferential award practices.

PURCHASING LAWS

There are two fundamental concepts associated with the central purchasing process. One is the belief that fair and open competition for contracts produces the most favorable pricing. The other is that buyers and sellers have certain rights and obligations in their transactions.

Fair and open competition at the national level has been protected primarily by three Federal laws: the Sherman Antitrust Act (1890), the Federal Trade Commission Act (1914), and the Robinson-Patman Act (1936). The Sherman Antitrust Act prohibits unilateral monopolization and attempted monopolization. Unlawful monopolization has been defined as the possession of monopoly power; that is, the power to control prices or exclude competition. Monopolistic power when coupled with the element of deliberateness, or intent to acquire, use or preserve this power, is prosecutable under this act (“The Truth in Negotiations,” 1993).

The Federal Trade Commission Act prohibits unfair methods of competition and deceptive acts or practices affecting commerce. The Federal Trade Commission (FTC), created by the act, has the authority to issue “cease and desist” orders compelling firms to stop anti-competitive acts. The Supreme Court has empowered the FTC “to define and proscribe an unfair competitive practice, *even though the practice does not infringe either the letter or the spirit of antitrust laws*” [emphasis added] (“The Truth in Negotiations,” 1993).

The Robinson-Patman Act prohibits a seller from price discrimination between

different buyers when it adversely affects competition. The act further prohibits a seller from paying to, or receiving from a buyer certain commissions or brokerage fees. It is also unlawful for a buyer to knowingly induce or receive a discriminatory price prohibited by the act. There are a few exceptions, such as with perishable goods.

These federal laws have jurisdiction on commerce that crosses state lines. Most states have enacted legislation based on the federal laws to regulate intrastate, anti-competitive activity. California has three parallel statutes: the Cartwright Act (1907), the Unfair Competition Act (1970) and the Unfair Practices Act (1925).

The Cartwright Act, analogous to the federal Sherman Act, prohibits “trusts” which restrict trade or commerce. A trust is defined as a combination of capital, skill, or acts by two or more persons (“ABA Antitrust Law,” 1991).

The Unfair Competition Act, also known as California’s “little FTC Act,” prohibits any fraudulent, unfair, or unlawful business practice. This act also bars deceptive, misleading, unfair, or untrue advertising.

California’s Unfair Practices Act, like the Robinson-Patman Act, prohibits unfair, dishonest, deceptive, destructive, fraudulent, and discriminatory practices which could prevent fair and honest competition. Secret payments, rebates, refunds, commissions, or unearned discounts not extended to all purchasers are also prohibited. Under the Unfair Practices Act, sales below cost, anticompetitive gifts, and loss leaders can all be offenses. If the intent to injure competitors or harm competition can be demonstrated.

The Unfair Practices Act specifically addresses locality discrimination. Distributors

may not sell an article or product at a lower price in one section, community, or city, than in another. Locality discrimination does not apply, however, to court-ordered sales or sales made in good faith to close out a seller's stock of seasonable, perishable, damaged or deteriorated products.

Since the law defines an article or product as any "commodity, thing of value, service or output of service," the Unfair Practices Act is wide-ranging and has been applied to haircutting, diaper washing, and uniform rentals. Due to their perishable nature, the marketing of milk, cream, and other dairy products is excluded from provisions of the Unfair Practices Act.

The other fundamental principle of central purchasing is that buyers and sellers have certain rights and obligations in their transactions with one another. At the national level, this principle is codified in Uniform Commercial Code (UCC). First published in 1952, the UCC supersedes the Uniform Sales Act of 1906 and consolidates other laws relating to commercial transactions. The Code determines rights and obligations primarily on the basis of fairness and reasonableness in the light of accepted business practice (Stone, 1995). All 50 states have adopted the UCC to govern commercial transactions within their borders; California adopted it in 1965.

The concept of the UCC is that "commercial transactions," the sale of and payment for goods, is a single subject of the law, and the Code purports to deal with all circumstances which may ordinarily arise in the handling of a commercial transaction, from start to finish (Stone, 1995). Its purpose is threefold:

- ◆ To simplify, clarify, and modernize the law governing commercial transactions.
- ◆ To permit the continued expansion of commercial practices through custom, usage, and agreement of the parties.
- ◆ To make uniform the law among the various jurisdictions.

THE PURCHASING CYCLE¹

The following section provides an overview of the essential elements of the public purchasing cycle in a centralized purchasing environment. The purchasing cycle begins when a requirement is defined. An end user determines a need for goods or services and prepares an authorized purchase requisition for submittal to the Purchasing Office.

On the requisition, funding must be identified from departmental accounts or other available sources. If funds have not been previously approved through the budget process, they must be arranged through the accounting office, or approved by the organization's governing board.

Specifications for the request must be comprehensive enough to convey exactly what needs to be purchased to ensure that the correct material or service is acquired. Suppliers' input may be solicited in specification development, provided an impartial assessment of needs can be obtained. Contacting several different suppliers for information helps offset vendor bias towards a particular product or procedure.

Once comprehensive and impartial specifications have been written, a bidders list is

¹ Convention, through time and practice, has established the Purchasing Cycle. Procedures vary at different public agencies. Additional steps may be included or steps described omitted.

established, including past successful bidders and responsive bidders. Trade journals, references, letters of introduction, vendor organizations, and the telephone yellow pages can also be sources of a bidders list.

Bid requests are then sent out to suppliers on the bidders list. The bid may also be advertised, to invite additional firms to compete for the business. It is best, and in many cases required, to leave the bid list open to allow prospective bidders the opportunity to participate in the bid process. One exception may be the establishment of a pre-qualified bidders list for professional services (e.g., architects, engineers).

A pre-qualified bidders list may be established at the beginning of the agency's fiscal year or budget cycle. References, experience with projects of a similar nature, financial solvency, and the education and licensing of interested service professionals are evaluated and those qualified are approved for inclusion on a standing list. When a requirement arises, names from the list are contacted for bid submittal.

Bids may be obtained either verbally or in writing, and in an informal or formal manner. A formal bid opening has a set bid opening time when sealed bids are opened and read in public.

Upon receipt of bids at the predesignated response time and place, pricing, terms, and conditions are evaluated. A committee of evaluators may be formed for more complicated bids. Normally, the committee is established beforehand and consists of members from the requesting department, technical staff if appropriate, and a purchasing representative.

Often, evaluation is fairly straightforward and based on the lowest price received.

However, factors other than price may also be considered. Past performance, warranty, cost benefit analysis, financial solvency of bidders, a supplier site visit, and references may all be taken into account. Samples of anything tangible being proposed may be obtained and field tested.

Once the decision has been made to award an order, funds are encumbered to ensure payment once the goods or services have been obtained. This usually occurs when a purchase order is prepared for distribution to the successful bidder. The bidder may also be sent a letter of intent to purchase, assuring the agency availability or scheduling of the awarded commodity.

After receiving the order, the successful bidder is obligated to deliver. Upon delivery, the requesting department reports receipt of the material or service to the accounting department, and payment is made. This final step completes the basic purchasing cycle.

In more complex acquisitions, additional factors may come into play, such as contract administration, warranty, and vendor follow-up. For an ongoing requirement for material or service, contractual option periods may be exercised. In addition, when a warranty has expired, maintenance contracts may be subject to competitive negotiation or new bidding. The key is coordination and control of the process through a central purchasing office.

CENTRAL vs. DECENTRALIZED PURCHASING

The basic premise in purchasing is that centralized purchasing is more efficient and cost-effective than decentralized purchasing (Aljian, 1981). In a centralized environment, most transactions are handled by the purchasing office, based on requisitions received from

the other departments in the organization. The purchasing office determines the most cost-effective means for securing the requirement and the extent to which the initiating department will be involved. Departmental involvement may include clarification of technical specifications, designation of a project manager, participation in a pre-bid conference, testing of offered materials or processes, site visits, and assistance in evaluating the bids. Advantages of centralized purchasing include:

- ◆ Economies of scale and increased buying power
- ◆ Reduced duplication of effort and paperwork
- ◆ Adherence to uniform policies, practices and procedures
- ◆ Standardization of commodities
- ◆ Development of buyer knowledge and skills
- ◆ Improved vendor relations

On the other hand, decentralized purchasing distributes buying authority throughout the agency (Aljian, 1981). Departments are free to determine when and how to bid out requirements, which vendors to solicit, and to which supplier award will be made.

Advantages of decentralized purchasing include:

- ◆ Quick acquisition of goods and services
- ◆ Increased departmental control over acquisitions
- ◆ Development of specialized buying skills for select commodities

An optimum arrangement would combine aspects of both centralized and decentralized systems. Giving departments autonomy to purchase small dollar items

necessary to maintain daily operations while maintaining Purchasing's ability to control volume buying is an effective tradeoff. Appropriate controls, departmental training, accurate record preparation, and retention procedures are necessary to maintain fiscal integrity (Aljian, 1981).

SMALL DOLLAR ORDERS

Since purchase orders cost an agency \$40 - \$100 to process (Dobler & Lee, 1990), purchasing should encourage requestors to avoid using regular purchase orders to acquire small dollar orders. Included in purchase order transaction cost is staff time necessary to write or enter on-line a requisition, process the purchase order, encumber the funds, receive the goods, report the receipt, match the invoice, issue payment to the vendor, close the purchase order, and maintain an audit trail.

It is estimated that approximately 80% of all purchases account for 20% of the value that an agency spends (Aljian, 1981). By concentrating on high dollar purchases, agencies can devote energy where there will be the most impact. To focus on high value activity, small dollar purchases must be dealt with quickly and efficiently. Small dollar purchase systems accommodate that need. These systems include:

- ◆ Procurement or Credit Card
- ◆ Direct Payment
- ◆ Confirming Purchase Order
- ◆ Blanket or Open Purchase Order
- ◆ Petty Cash

- ◆ Inventory Stock
- ◆ Open Bin System
- ◆ Warrant or Check System

Procurement or Credit Card

A bank or financial institution contracts with the agency to provide a credit card (e.g., VISA, American Express, Master Charge). Each card is issued in both the agency's and the card-holding employees' names, with a unique account number for each card. While the agency is responsible for charges made against the cards, each employee is accountable for assigned card usage.

For each individual card, transaction amounts, cumulative total expenditures, and commodity usage can be controlled. The bank that issues the cards sends a monthly statement simultaneously to every cardholder and to the agency's accounts payable department. The statement must be reconciled each month for payment to be made. The agency then makes a single payment to the bank, eliminating the need for multiple purchase orders.

Direct Payment

Direct payments are those made directly to the vendor without benefit of a purchase order. Usually, direct payments are made for utilities, subscriptions and other requirements such as fees, licenses and other regulated costs which cannot be bid or negotiated so that the purchasing process would add little or no value.

In most instances, the purchasing office is not aware of, nor involved with the billing.

Direct payments may also be used for routine, small dollar orders where expediency in payment is desirable. Occasionally, direct payments may be made to a desired vendor who may not otherwise accept a purchase order.

Confirming Purchase Order

Confirming purchase orders are issued under urgent circumstances, such as when the requestor needs goods or services immediately to complete work-in-progress, or to maintain operations. Confirming purchase orders may also be requested in emergency situations when there is a threat to public safety, health or property. In both instances, the requestor will usually directly solicit informal bids from potential suppliers, and select the one with the best price and quickest availability of the needed material or service.

The requestor then contacts the purchasing office for a confirming purchase order number to authorize the vendor to proceed. Purchasing may require an approved requisition before releasing the purchase order number.

Blanket or Open P.O.'s

A public agency may issue a blanket or open purchase order which covers purchases over a period of time from a particular vendor. Ideally, blanket purchase orders are issued based on set pricing for a given number of items, or a percentage discount off list or manufacturer prices, with these costs held firm over the term of the agreement.

Releases are made against the blanket order as needed. No additional purchase orders are required in that all transactions are made against the original agreement. Controls may be incorporated into the agreement, such as designating authorized users, setting dollar limits

per transaction and for total usage, and limiting usage to select items or categories of items.

Petty Cash

At the heart of any small dollar purchasing system is the petty cash fund. Petty cash funds are established at set limits and must be periodically replenished. No purchase order is issued. Dollar limits are also set for individual transactions made with petty cash. Funds may be appropriated either before or after the transaction, but an exact receipt is required to document reimbursements to the petty cash fund.

An inconvenience inherent with a petty cash system is that employees must prepay purchases with their own money and then wait for reimbursement. Advancing employees cash can overcome this problem; however, this additional step in the process reduces efficiency. Handling cash can also create security and accountability problems. Securing petty cash funds is essential for maintaining agency integrity.

Inventory Stock

Another common method used to handle small dollar purchases is to maintain an adequate inventory of frequently used items in a storeroom or storage area to ensure both availability and cost effectiveness. Storeroom inventory can be pre-planned and purchased through the normal purchasing process. Contractual agreements and blanket purchase orders can ensure timely delivery of critically needed items.

Open Bin System

In an open bin system, a bidder is awarded an open order to supply an agency with materials on an "as needed" basis. This award is usually accomplished through the

competitive bid process. The open order is similar to other blanket orders, only the supplier has the additional responsibility of monitoring and replenishing stock as levels diminish. Departments help themselves to stock as the need occurs. The supplier submits a usage statement monthly and invoices the agency for supplies furnished.

If the agency has a central storeroom, elimination of a storekeeper may be a possibility with an effective open bin system. Loss of materials through pilfering or wasteful usage may occur. However, with oversight, savings should offset losses.

Warrant or Check System

In a warrant or check system, public funds are deposited in a bank and expended by agency personnel as needed. A checking account is set-up for a department with a predetermined amount encumbered and deposited in the account. Authorized individuals then issue checks against the fund for routine, minor purchases. The fund is replenished periodically to keep the account viable and active.

SPECIFICATION DEVELOPMENT²

In a centralized purchasing system, the specifications precisely define the needs of the requestor. Description and performance criteria are communicated within the specifications to the supplier. The specifications may include payment terms, insurance clauses, price protections, warranty, and parts availability requirements. Specifications can be summarized into four distinct groups:

² Like the Purchasing Cycle, Specification Development has evolved by convention through time-proven practices.

- ◆ Brand or Trade Name
- ◆ Commercial Standards
- ◆ Performance Specifications
- ◆ Design Specifications

The simplest method for specifying a requirement is to reference a *brand or trade name*. When referencing brand names, most public agencies will add the words "or equal" (e.g., Xerox or equal). The "or equal" qualifier incorporates design and performance qualities of the brand listed by reference. It is normally the bidder's responsibility to demonstrate that any substitute brand offered equals or exceeds the qualities of the one listed.

Commercial standards, also known as industry standards, refer to commonplace goods which may vary in composition or design, but satisfactorily perform an intended purpose. Two examples of commercial standards are: No. 2 pencils, and unleaded gasoline - 87 octane.

Performance specifications are useful in describing services, such as equipment maintenance agreements. Precise descriptions, along with quantitative measurements, ensure compliance with service requirements. Performance milestones within the specification can allow supplier accomplishments to be assessed at various chronological points of the agreement.

Blueprints and schematics are examples of *design specifications*. Design specifications should be used only when there can be little or no tolerance in a request. Care must be used when preparing design specifications because if the supplier performs according

to specifications and there is an error in the design, the requestor has no recourse for recovering damages.

Vendors providing materials or services are the most common source of comprehensive specifications. However, intricate plans or design criteria may be prepared in-house. An independent, outside consultant, such as an architect, may be hired to draft complicated specifications. Finally, the purchasing office should routinely conduct market searches to see what current products or processes are available to meet requestors' needs.

REQUESTS FOR QUOTATION/PROPOSAL/INFORMATION³

Vendors are most commonly solicited to bid via a Request for Quotation (RFQ). The RFQ conveys the specifications for the needed goods or services and may comprise agency requirements for delivery, maintenance, and other factors.

An informal RFQ, usually for low-cost items, may be handled verbally or via fax, while a formal RFQ, for more expensive goods or services, is always in writing and must be submitted by a set due date. In general, formal RFQs have a longer turnaround time, in that advertising and mailing of bid specifications are required.

In either case, the item description and specifications are relayed to the prospective bidder and an offer is made in return. Pricing normally is required to be firm for 30 days from the quotation or bid opening date, unless otherwise indicated.

The Request for Proposal (RFP) is typically used when the requesting agency wishes

³ This section describes a process that has evolved to work optimally with public agency goals, regulations, and statutes. Variations occur from one agency to another.

to have suppliers suggest options for solving a problematical user requirement or when the agency lacks the expertise to formulate a specification. The RFP provides a general idea of what is required, usually described by performance criteria or by the desired end result. The vendor is then responsible for proposing products or processes that will meet the user's needs. The agency selects the proposal which appears most likely to meet those needs.

The Request for Information (RFI) makes no commitment to buy on the part of the agency, but rather simply solicits information from qualified vendors. Information received is then used to complete bid specifications, or to go forward with another product or option. A decision of "no action" may be reached based on responses to an RFI.

BID EVALUATION AND CONTRACT AWARD

Once a public agency has received bids, the next step in the central purchasing process is bid evaluation and contract award. The most straightforward and defensible criterion for bid evaluation is price. However, evaluation of either formal or informal bids may include factors such as past performance, references, experience with similar accounts, life cycle analysis, financial solvency, product offered (substitutes), demonstrated familiarity with requirements, and geographical location (Short, 1992). A site visit may be useful to determine whether production facilities or inventories are adequate to fulfill the agency's needs.

Once a determination has been made, award of contract follows, typically via a purchase order. The contract legally obliges both buyer and seller to perform certain duties. It closes the deal, formalizes acceptance of the offer, and may reference the supplier's original

quote as a condition of award. Four essential elements of a contract are:

- ◆ There is an explicit offer and acceptance.
- ◆ There is mutual consideration (i.e., quid pro quo).
- ◆ The contract is entered into without coercion and by competent parties.
- ◆ The contract is issued for a lawful purpose.

According to the Uniform Commercial Code, in the absence of a formal or written contract, “Conduct by both parties which recognizes the existence of a contract is sufficient to establish a contract” (Dobler & Lee, 1990).

Upon award of contract, there is no obligation on the part of a public agency to inform suppliers of bid results. However, the California Public Records Act (CPRA) guarantees any person access to state and local government agency records, including bid results (Jeffe, 1983). Disclosing bid results can actually benefit a public agency, in that unsuccessful bidders have the option of lowering prices to be more competitive on future bids.

DISADVANTAGED AND SMALL BUSINESS PARTICIPATION

As government purchasing became centralized, procurement policies came to rely on open competition to produce low costs, obtain quality goods and services, and preclude favoritism, extravagance, fraud and corruption. However, since the mid-1900's, public purchasing has increasingly been used as a means to further social and economic causes. In 1972, the Commission of Government Procurement identified thirty-nine non-procurement related programs, such as labor surplus set-aside practices and “Buy America” requirements, connected with the public contracting process (Heylin, 1981). Disadvantaged and small

business enterprises have also been designated to receive assistance.

In many public agencies, goals or objectives have been established to encourage disadvantaged business and small business participation in public contracting, a form of government assistance to these firms. The State of California has goals for participation in three categories of disadvantaged businesses: 15% for minority business enterprises (MBE), 5% for woman business enterprises (WBE) and 3% for disabled veteran's business enterprises (DBE). To be classified as a disadvantaged business, an ethnic minority, woman, or disabled veteran must have at least 51% ownership and managerial involvement in the firm (California Public Contract Code, 1985).

Participation by disadvantaged businesses or a good faith effort to involve these businesses in the bidding process must be shown by contractors wishing to do business with the state. Certified small businesses, regardless of ownership, automatically receive a 5% preference in evaluation of bids. The federal government has established additional requirements for disadvantaged and small businesses when federal funds are involved.

However, state and federal guidelines on disadvantaged participation in the purchasing process are changing and may soon be eliminated, due to well-documented evidence of fraud, waste, abuse, and other activities contrary to the programs' goals. Sham disadvantaged ownership, alienation of otherwise reputable bidders, increased costs to governmental agencies, and the dwindling number of disabled veterans have all hindered program efforts. In some cases, set-aside programs have been found to assist affluent businesses which can technically be classified as disadvantaged. Other programs have subsidized groups unable to

survive without preferential contract awards (Heylin, 1981).

Prime contractors in major public works projects have found that prices quoted by disadvantaged businesses are often higher than those from non-disadvantaged subcontractors. As a result, to employ these higher-priced firms, many general contractors must charge more or cut corners on projects, thereby jeopardizing the public interest in terms of quality construction at competitive prices (Heylin, 1981).

Periodically, a local preference is proposed to grant preference to businesses based on location, usually within a particular city, state, or county. This may be appropriate when something tangible, such as a local sales tax return, is factored into an award. Otherwise, local preferences should be avoided since they may foster reciprocity on the part of other localities and hurt public agencies in the long run (Zee, 1989).

On the other hand, a unitary disadvantaged business preference, similar to California's 5% small business preference, based on financial solvency would be straightforward and simple to administer. Floating or scaled preferences may be factored into contract awards. However, limits on the duration or quantity of assistance should be enforced to discourage program dependency.

The problem of encouraging disadvantaged and small business participation in public contracting can be addressed by making the bidding process as accessible and straightforward as possible. One potential solution is to offer free, agency-sponsored workshops or training sessions on how to do business with government. Private industry mentoring and partnerships with disadvantaged and small businesses is another possible solution which could

foster and encourage participation in the public bid process (Zee, 1989).

Most government assistance, such as set asides, quotas and preferences, are an artificial manipulation of the market. Indeterminate is the possible reduction in social welfare costs as the result of assisting disadvantaged businesses (Heylin, 1981). Initial assistance, to aid prospective and promising start-up businesses, should be the limit. Overall, a relatively free market should determine the price public agencies pay for materials and services.

COOPERATIVE PURCHASING

Cooperative purchasing agreements, also known as piggyback contracts, enable many public agencies to take central purchasing a step further. Cooperative agreements for materials or service contracts are bid and awarded by one lead agency. The lead agency coordinates the pooled requirements of the other agencies, handles the bid opening, and administers the contract. Each participating agency is then responsible for issuing its own purchase orders, receiving the materials or service, and making payment to the successful supplier. Public agencies with common interests often form temporary or permanent consortiums to combine resources, knowledge, and buying clout to realize increased cost efficiencies (Aljian, 1981).

Public agencies may take advantage of cooperative purchasing through existing master agreements. With this option, the vendor awarded a master agreement is willing to extend terms and pricing to agencies other than the primary awarding agency. Enabling language must be incorporated in the original agreement for subsequent public agencies to use this option ("State and Local," 1994).

Frequently, a governing body will allow participation in cooperative agreements only if the awarding agency follows minimum prescribed bid requirements. However, bid requirements may be waived when in the best interest of an agency, and if a vendor is willing to extend favorable terms and pricing. This is particularly the case when competitive negotiations are involved in the award of a contract.

There can be disadvantages to cooperative ventures. Individual agencies may lose control of acquisition timing or choice of materials and services. Longer lead times may occur when securing purchases through cooperative agreements. Also, materials purchased may not be exactly what a participating agency expected, or desired accessories may not be included. Overall, though, cost savings and leverage achieved through cooperative purchase agreements frequently outweigh inconvenience (Aljian, 1981).

SERVICE AGREEMENTS

Occasionally, public agencies must contract out services as part of the central purchasing process. Service agreements are useful when an agency is short staffed or in-house workers are untrained, unqualified, inexperienced, or unknowledgeable about a requirement. A *Scope of Services* frequently prefaces a service requirement to outline the purpose or intent of the request and delineate performance criteria and payment terms (Short, 1972). The elements of a service contract are:

- ◆ The work is performed by outside sources.
- ◆ The materials cost is incidental to the service cost.
- ◆ The contracting agency must be protected from liability.

- ◆ **Contract workers do not receive agency financed benefits.**

Contracting out services can save a public agency money, in that benefits and leave are not paid directly to contract workers. Staffing arrangements and scheduling are also more flexible because strict adherence to agency work schedules can be avoided. Finally, an augmented level of expertise can be designated through experience, skill, and training requirements (Dobler & Lee, 1990).

Because contracting out services may be perceived as taking jobs away from agency workers, involving employee bargaining units in the contract process facilitates its success. Demonstrating to bargaining units that outside service contracts may be good for the organization as a whole and, in turn good for the employees, is important because it demonstrates that cost savings achieved helps to retain jobs.

Even the mere prospect of contracting out services may work to an agency's advantage, for, when challenged by the possibility of losing work to outside sources, in-house workers may develop new, more cost-effective means of job performance. Such streamlined operations makes permanent employees more essential while minimizing the need to contract out services.

As a safeguard to permanent employees, many public agencies require prior personnel department notification or approval before contracting out services. For an ongoing requirement, the agency may consider hiring additional staff. Governing boards may even insist that socially responsible requirements such as minimum health coverages or retirement plans be included in service specifications. However, such requirements can artificially

manipulate market conditions and tend to increase contract prices (Short, 1972).

PROFESSIONAL SERVICES

Professional services, sometimes referred to as “products of the mind” (Pregler, 1993), are usually contracted for the purpose of recommending a course of action. Professional consultants include appraisers, architects, attorneys, draftsmen, engineers, and surveyors. The end product, written or verbal, and including any designs, drawings and other technical data produced, should remain the sole property of the agency.

In professional service contract specifications, consultant qualifications, licensing, experience with similar projects, resumes of individuals working on the project, references, and financial statements may be requested to identify the best qualified consultant. A description of methods to be used, equipment and facilities, payment schedule, performance milestones, and target dates should also be delineated in the project’s specifications and formalized in the final agreement (Zemansky, 1987). If possible, reimbursable costs (travel, food and lodging) should coincide with existing agency rates.

Frequently, professional service proposals are submitted separate from costs. The proposal is evaluated first, and if acceptable, cost is then considered. This way, the requesting agency can be assured of receiving a service best suiting its needs within an established budget.

It may be beneficial to pre-qualify professional consultants. Advertisements may be posted at the beginning of a fiscal year to accept applications and once received, qualifications of interested consultants evaluated. The establishment of a pre-qualified consultant list

facilitates soliciting of proposals for professional services. However, this procedure should not exclude potential newcomers from submitting proposals for consideration (Zemansky, 1987).

SOLE SOURCE PURCHASES

“Sole source” means goods or services can only be obtained from only a single supplier or exclusive distributor (Aljian, 1981). Sole source procurement may be necessary to acquire parts to match existing equipment, proprietary software or other intellectual property, professional services, maintenance to equipment necessitating warranty protection, one-of-a-kind goods, or equipment with unique performance features. A thorough market search should be made to see if alternative products or services are available, since it is in the agency’s best overall interests not to get locked into sole source requirements, which are restrictive and not always cost effective (“State and Local,” 1994).

If it is determined that only a sole source can meet the requirement, then typically there is no value to the agency to competitively bid the requirement. Instead, the agency tries to negotiate the most favorable terms and pricing from the provider. Through effective negotiation, an extended warranty or additional accessories may be acquired at no increase in price.

However, occasionally bidding out a deemed sole source requirement may help keep costs down by letting other suppliers know that there is a demand for a particular product or service. This could generate competition, by encouraging another manufacturer to retool a production line or another service provider to hire additional staff to accommodate such

requests. A centralized purchasing office can monitor sole source requests to ensure proper compliance with agency guidelines.

PUBLIC WORKS CONTRACTING⁴

Public works may be defined as *any project which includes the erection, construction, alteration, painting, repair, or improvement of any public structure, building, or road* (California Public Contract Code, 1985). Labor intensive work done on a public agency's infrastructure falls within this category. Also, work which requires a valid contractor's license is usually a public works project.

However, under a prescribed dollar limit, a job that would otherwise be classified as a public works project may be treated as a small construction project and completed through day labor or by the agency's own forces. In this instance, strict adherence to public works contract requirements may be waived.

Most governmental agencies have adopted standard procedures governing public works projects. First, the requirement is defined and specifications are prepared. The agency then designates a project manager to coordinate the work. Advertisements placed in local or statewide trade journals or newspapers invite contractors to bid.

A pre-bid conference may be held to cover specific characteristics of the project and to answer questions, often during a job site walk-through held to familiarize prospective bidders with working conditions. During the pre-bid meeting agencies must notify bidders

⁴ Public Works Contracting can vary between agencies. The process described is appropriate for a majority of public agencies within the state of California.

of potentially hazardous or dangerous working conditions. Usually, the pre-bid conference and walk-through are mandatory and only those in attendance may subsequently submit bids.

To minimize risk to the awarding agency, bid bonds, performance bonds, and payment bonds are frequently required (Aljian, 1981). A bid bond is a set percentage, normally 10%, of the total contract price. The bid bond acts as an inducement to bidders to hold prices firm. Should an otherwise low bidder withdraw a bid after the bid opening, the contracting agency may act against the bond to cover the difference in cost between the low bid and the next low bidder.

A performance bond guarantees compliance with bid specifications through the life of the agreement, and may stay in effect for some time after completion of the project to protect against hidden or unapparent deficiencies in workmanship. These bonds are typically required in the amount of 100% of the contract price, because a performance bond for less than 100% of the contract price will generally cost as much as one for the full amount.

Payment bonds assure payment by the prime contractor to all subcontractors and material suppliers, thus protecting the public agency against liens which might otherwise be filed against it in an attempt to secure payment. Payment bonds can be obtained at no additional cost to the contractor when a performance bond is required. Therefore, a payment bond should always be requested when there is a performance bond requirement.

When state or federal funds are used, additional restrictions may be imposed for public works projects, typically including the requirement that the successful contractor must pay prevailing wages, the designated wage rates for particular trades within a defined

geographical region (California Public Contract Code, 1985). However, the use of prevailing wages is becoming less common due to deregulation and the desire to reduce contract costs.

Because public works projects account for a great deal of an agency's expenditures, and also account for a great portion of its risk, contractor's liability insurance and worker's compensation insurance must be secured prior to commencement of work, usually with the awarding agency named as an additional insured on the insurance certificates. When licensing is indicated, it is the agency's responsibility to check with the State Contractors Licensing Board to ensure that a low bid contractor is in good standing (California Public Contract Code, 1985).

Liquidated damages protect the agency against undue delays on time-critical projects. Financial penalties, from as little as \$50 a day or as much as \$250,000 a day, may be assessed against the contract price for each day the project is delayed in meeting the time line defined in the bid specifications.

Finally, progress payments and payment retention may be stipulated in a public works contract to ensure adequate completion at various stages within the project. A payment retention, usually 10% of the total contract cost, may be held for a pre-specified period once the project is finished to allow for time to uncover deficiencies not noted in the final walk-through conducted by the project manager at the end of the work.

EMERGENCY TRANSACTIONS

An emergency can be defined as *a situation in which an unforeseen circumstance constitutes a threat of physical injury or death to individuals and/or serious damage or*

destruction to public property (California Public Contract Code, 1985). When there is an immediate need to protect public safety or welfare, there is usually not enough time to solicit bids through the central purchasing office; therefore, an informed market search may be conducted directly by the requesting department to determine which contractor or supplier is available to remedy the situation.

Journals or logs can be kept to track the agency's efforts to obtain the best value. These records are essential when filing claims with relief organizations such as the Federal Emergency Management Agency (FEMA). A history of what practices and procedures worked successfully, and which did not, is also beneficial when preparing for future disasters.

The central purchasing office plays a key role in preparing for disasters and purchasing personnel should be included in disaster-preparedness training exercises. Emergency purchase orders, journals and transaction logs, and a cash reserve or checking account should be kept available to facilitate supply operations ("State and Local," 1994).

Setting up stand-by open purchase orders with local suppliers can increase the probability of quickly obtaining essential commodities in times of disaster. Pre-designating contractors willing to provide construction services, equipment rental, and supplies, rates, payment terms, and delivery instructions negotiated beforehand can prevent confusion and keep agencies from paying premium prices in emergencies.

If all else fails, law enforcement officers can commandeer civilian property in times of emergency. Fortunately, most local suppliers are civic-minded, image conscious, and willing to cooperate with public agencies for the good of the community, precluding the

necessity of resorting to such extreme measures.

LIABILITY AND AGENCY PROTECTION

Many public agencies are self-insured. Therefore, protecting the agency's liability reserves by minimizing risk is important. The central purchasing office can act as a focal point for coordinating many risk reduction procedures. Several measures can be taken when issuing purchase orders and awarding contracts.

Primary among these measures is general liability insurance. Liability insurance should be required whenever a contract worker must perform work on an agency's premises. A sample liability insurance clause follows:

Contractor shall provide proof of public liability and property damage insurance coverage prior to performance of duties. The insurance certificate shall name the contracting agency, its elected and appointed officers, employees, and agents as additional insureds. The policy shall provide coverage that cannot be canceled without thirty (30) days prior written notice to the contracting agency. Coverage shall be primary to any policy the contracting agency may have in effect and contractor is solely responsible for all insurance premium payments.

Other forms of coverage, including worker's compensation, automobile, garage keeper's, product liability, and errors and omissions insurance, can be requested to supplement general liability insurance. Limits are established according to the degree of risk associated with the job or in accordance with agency policy.

An indemnification and hold harmless clause offers additional protection. A sample indemnification and hold harmless clause is as follows:

Contractor shall defend, indemnify, protect, and hold harmless the contracting agency, its elected and appointed officers, employees, and agents, from and against all claims for damages, liability, and expenses (including attorney's fees) arising out of this

agreement and/or contractor's performance hereunder, except as to such damages, liability, and expenses due to the sole negligence or willful acts of the contracting agency, its officers, employees, or agents.

Warranties and certifications can be required in the bid specifications. In absence of an express requirement, standard manufacturer's warranties may suffice. The agency can also stipulate where and when warranty service will be performed.

Tying allowable contract price increases to the Consumer Price Index (CPI) can protect an agency against unjustified price increases. The CPI is a measure of the average change in prices over time in a fixed "market basket" of goods and services. The CPI is published monthly by the U.S. Department of Labor, Bureau of Labor Statistics, and is regionally sorted. Other methods for monitoring price increases, and decreases, include trade indexes and industry benchmarks (Rogers, 1994).

Finally, background checks and references should be reviewed prior to contract award. Projects or recent work of a similar nature may be inspected. A site visit or equipment inventory may be made to insure adequate resources are available to perform the work requested.

PROTESTS, REMEDIES AND RELIEF

Contractors have the right to protest or lodge complaints if they feel they have been treated unfairly. An effective complaint process should be available through the central purchasing office which follows predetermined procedures aimed at achieving resolution. The first procedural step involves remedy at the agency level ("State and Local," 1994).

A buyer or other purchasing official in an organization must be available to

contractors to answer questions, explain actions, and provide justification for procurement decisions. Detailed documentation must be kept to provide a history of occurrences leading to the agency's decision. Fair and impartial treatment of bidders demonstrates good faith and eliminates the basis for protest in many cases.

If a complaint or protest cannot be resolved at the initial purchasing level, an appeal to upper management or the governing body may be made. The nature of the complaint should be completely described and submitted in writing. Clearly delineated time frames at different steps of a protest are helpful in keeping the process moving. Often, a bid award is suspended or held in abeyance until a protest is settled (Short, 1992).

Prior agreement to mediation in the event of an impasse can be a requirement for participation in the bid process. Mediation hearings are held at a neutral site, by outside, professional moderators mutually agreed on by the agency and contractor. The agency and bidder normally split mediation costs. A sample mediation clause follows:

Should any dispute arise out of this agreement, either party may request that it be submitted to mediation. The parties shall meet in mediation within thirty days of a request. The mediator shall be agreed to by the mediating parties; in the absence of an agreement, the parties shall each submit one name from mediators listed by either the American Arbitration Association, the California State Board of Mediation and Conciliation, or other agreed-upon service. The mediator shall be selected by a "blindfold" process.

The cost of mediation shall be borne equally by both parties. Neither party shall be deemed the prevailing party. No party shall be permitted to file a legal action without first meeting in mediation and making a good faith attempt to reach a mediated settlement. The mediation process, once commenced by a meeting with the mediator, shall last until agreement is reached but not more than sixty days, unless the maximum time is extended by both parties.

ETHICS AND VENDOR RELATIONS

Public agency adoption of a formal ethics policy administered through the central purchasing office is a deterrent to questionable business practices. An agency-wide policy governing vendor relations ensures compliance at all levels, not just the purchasing office. The California Association of Public Purchasing Officers (CAPPO) and the National Association of Purchasing Management (NAPM) have each adopted standards of purchasing practice for their membership, and most public agencies have adopted these standards. Ethical dealing with vendors is primary among these standards.

Relationships with vendors should always be maintained on a professional level. The slightest appearance of impropriety can be construed as favoritism or unfair business practice. Vendors sensing favoritism become apprehensive, less likely to submit subsequent bids, and more likely to protest.

Standards limiting acceptance of gifts, such as promotional items and other gratuities, ensure the perception of fair and equal treatment from the vendors. Typical acceptable standards include gifts under \$25, low-cost items imprinted with a company logo, consumables which can be ingested at a single sitting, or food or flowers which can be shared with the public or others in an office (Janson, 1988).

Letting vendors know initially that gifts are not allowed leaves no doubt where an agency stands and saves well-intentioned vendors the embarrassment of having their gifts refused. An agency with a strict no gift policy can send out letters periodically, such as before Christmas and other holidays, to remind vendors that agency personnel cannot accept gifts.

Agency personnel should not go to lunch or dinner with vendors, as this may be perceived as favoritism. While in some circles, lunch meetings are not only the norm, but expected, and justified as being a legitimate means of conducting business, what business must be done over lunch which cannot be conducted in an office setting or conference room? Maintaining a professional relationship with vendors, honest and impartial, lets the vendors know what to expect, and removes any doubt about the integrity of the organization (“State and Local,” 1994).

SURPLUS PROPERTY DISPOSAL

Another duty of many central purchasing departments is surplus property disposal.

There are five primary means for disposing of surplus property:

- ◆ Sell on the open market or at auction
- ◆ Trade-in
- ◆ Donate to non-profit groups or charity
- ◆ Convert to departmental use
- ◆ Discard or destroy

Selling surplus public property brings in revenue for the agency which can be put into either the general fund or other specialized funds, such as for equipment replacement. Surplus property can be sold at public auction or on the open market through advertisement.

If an auctioneer is used, a commission of approximately 7% - 15% is paid. The auction house earns its commission by handling many details of the sale that the agency would otherwise have to arrange, such as advertising the auction, transporting items to the auction

yard, providing security, inventorying lots for sale, tracking the sale of goods, and accounting for cash transactions (“General Public,” 1993).

Trade-ins are a common, convenient method for disposing of unwanted equipment and are particularly useful when buying replacement equipment. The specifications should state that the price offered for a trade-in will be factored into bid evaluation when buying like equipment. The agency should further give no warranty or guarantee of operational fitness, but rather offer the used items “as-is, where-is.”

Donating surplus items to non-profit or charitable organizations raises several policy issues. For instance, should local organizations take precedence over non-local causes? Should a rotation system be set-up to accommodate multiple groups? Should all requesters be granted equal access to surplus public property? And, should non-profit groups and charitable organizations be allowed to pick and choose which surplus items to take? These issues are best decided on a case-by-case basis by the organization’s governing board.

The most straightforward means of disposing of surplus property is to discard or destroy it. Recycle considerations enter into any decision to throw out property. Scrap bins can be used to accumulate metal parts, which can then be sold for revenue. Hazardous components, such as solvent tanks, must be dealt with in a legal and environmentally sound manner.

AUDITS AND RECORDS RETENTION

Central purchasing operations are regularly audited, both internally to insure financial record keeping integrity, and externally, to provide an independent assessment of the

agency's fiduciary operations. These audits may be periodically scheduled or initiated as a condition for receipt of funding from specific sources, such as federal grants. The agency's governing board may order or schedule outside audits to validate financial practices. A thorough and comprehensive audit trail reveals all steps of a purchase transaction and provides an accurate history of what has transpired.

How long should a public agency retain purchasing records? Skupsky (1994) recommends *three years* after completion of work, expiration of contract, or final payment. However, records of unique purchases with intricate specifications, of purchases acquired with government grant money, and for certain public works projects are often kept longer.

A clearly defined records retention program establishes appropriate procedures. Primary in a records control system is a responsible administrator. Procedures must be well documented and administered consistently. In addition, the ability to place a "hold" on records for audits, litigation, or government investigation is an important component of any records program.

According to the Federal Business Records Act, electronic records retention is an acceptable method of records storage, provided the process accurately reproduces the original. Microfilming, electronic imaging, and optical scanning are all acceptable electronic retention methods (Skupsky, 1994). However, in the event of litigation, courts may require paper reprints.

Destruction of records is the final step in a comprehensive records retention system. Strict adherence to destruction schedules assures consistent practice, frees up space, and

reduces storage costs. The absence of a proper records retention program can result in fines, penalties, loss of rights, or other adverse consequences for the agency. It is each public agency's obligation to maintain accurate and relevant records.

FUTURE DIRECTIONS

Centralized purchasing standardizes bidding and evaluation procedures, achieves economy of scale benefits, and reduces the tendency to award contracts based on personal or political favoritism. Without the oversight of a central purchasing office, integrity would suffer and savings would be lost. Improvements in the purchasing process must therefore focus on fairness, impartiality, and fiduciary responsibility.

Two notable areas of progressive evolution in central public purchasing are electronic information transmission and competitive negotiations. Electronic data interchange (EDI) is gaining popularity. A recent survey by the EDI Group, Ltd. revealed that one third of the general business population is either using or actively planning to use EDI as part of business operations (Mason, 1993).

With EDI, an on-line account is set up between the buyer and the seller. Purchase orders are sent electronically to the vendor. Once the order has been filled, the vendor's invoice is transmitted electronically to the agency's accounts payable section. Upon verification of receipt, the agency electronically transmits payment to the seller's designated account.

Controls are built into the system to protect against both fraud and error. Because information is sent electronically, the entire process speeds up. Orders are received and

processed quicker, and compensation is rapidly received. As a result, cash discounts for prompt payment can be negotiated.

EDI in the form of Internet access and electronic bulletin boards enables requests for quotes to be posted quickly to a wide variety of vendors. Bids can be electronically submitted to the purchasing office as opposed to hand carrying them, or using the mail, or a delivery service. Bid results and awards can then be posted on an electronic bulletin board or web page for review.

The other major transformation impacting central public purchasing is the implementation of competitive negotiations, emphasizing value-added purchasing. Functional specifications and performance criteria are the primary means used with value-added purchasing to select products and vendors. Evaluation focuses on factors other than price: product performance, the life expectancy of materials and products, vendor support, and qualitative analysis ("Government Procurement Models," 1993). Once a vendor is selected, negotiations are held to finalize an agreement.

Along with value-added purchasing, vendors will be expected to take the initiative to come up with new ideas on how to assist public agencies. Mutually beneficial partnerships will enhance the purchasing process. Creative product delivery and invoicing will reduce costs and improve efficiencies.

Private purchasing services devoted exclusively to public agencies may be formed. Purchasing consortiums can be expanded, and requirements standardized to lower market costs. The array of possibilities is only as limited as an agency's willingness to experiment

with creative processes.

Regardless of the direction public purchasing takes, its primary goal of accountability in spending public funds remains. Concurrent with that goal is the elimination of preferential award practices. Thus, purchasing by whatever means must continue to be conducted in a fair, open, and unbiased manner, allowing every vendor interested in providing products, materials, or services the opportunity to participate.

CONCLUSION

The trend to “reinvent” government has compelled public purchasing officials to appraise existing processes and procedures. Procurement methods, as they relate to the organization as a whole, are being closely scrutinized. What has been found is that centralized purchasing adds value to public administration. With centralized purchasing, applications are more controlled and fiscal savings are achieved for other beneficial programs. Just as in private purchasing, public purchasing savings contribute to the agency’s bottom line.

However, care must be taken when making government smaller. Savings may be false and the financial burden to continue government operations shifted. “It is fatuous to claim savings from the reduction of 252,000 civilian employees if the result is to contract out to private industry work that used to be done by federal employees” (Moe, 1994). By significantly reducing the number of midlevel career managers across-the-board, the President may be “making the world safe for consultants and contractors” (Moe, 1994).

Positive improvements within a centralized purchasing framework encourage and

welcome advances in technology. The Defense Logistics Agency, a branch of the Department of Defense, awards 50% of its purchasing contracts via electronic commerce. According to Vice President Gore's reinventing government report, paperless purchasing saves \$123 million at the federal level ("National," 1995).

NASA has created an electronic commerce system called Scientific and Engineering Workstation Procurement (SEWP) which governs agency computer purchases. Twenty-six federal agencies and eight computer systems sellers participate in SEWP. Orders are transmitted over the Internet and credit cards are used to issue payment. As a result, average order time has decreased from 115 days to five. Savings have been estimated at \$140 million ("National," 1995).

The Social Security Administration is experimenting with electronic benefits transfer (EBT). Benefits are transferred directly in client's bank accounts or via a personal debit card. Food stamp benefits are already being issued through debit cards in ten states. These cards may be used at merchant's cash registers just as ATM cards are being used. Savings have occurred in postage and processing ("National," 1995).

In the private sector, Sun Microsystems, a successful manufacturer of high end computer workstations, is attempting to narrow its vendor base by 90%, from 9,000 to 900 ("Sun," 1994). Such a move places greater emphasis on value based purchasing. Making commitments to suppliers places the onus on performance.

A major impetus of the reinventing government philosophy is the increased autonomy in decision making and greater responsibility of government employees. This is particularly

the case with public purchasing agents, who have been encouraged to be more independent when dealing with vendors. With higher buying approval limits and more flexible regulations, as the Gore report recommends, purchasing agents can be more proactive and competitive in negotiations with vendors.

President Clinton recently issued Executive Order 12931. This federal procurement reform measure advocates central purchasing, electronic procurement, and competitive negotiations through guiding principles that encourage and reward innovation. It specifically states “ Increase the use of commercially available items where practical, place more emphasis on past contractor performance, and *promote best value* [emphasis added] rather than simply low cost in selecting sources for supplies and services...” The president has further recommended the designation of a “Procurement Executive” with agency-wide responsibility to oversee purchasing related operations (“White House,” 1994).

Clearly, the federal government has taken a leading role in advancing centralized purchasing as a cost-effective means of public administration. State and local governments from across the nation have followed the lead. Centralized purchasing remains the fairest, most impartial means for government to do business.

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