

## A REVIEW OF STATE PROCUREMENT AND CONTRACTING

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**ABSTRACT.** Are states effectively managing contracting and procurement activities? Are they striking the right balance between central administrative control and empowerment through delegation? How effective is training and monitoring? How do these practices compare to the principles of best practice? What role will information technology play in the future for procurement and contracting? As part of the Government Performance Project, budget, procurement, and contracting managers in 48 states were surveyed, providing descriptions of their procurement and contracting practices. There are numerous developments that speak to the practical details of contemporary public management. Five key findings are (1) information technology needs are challenging states, with some responding well, but others struggling, (2) in most states staff training needs to be improved, (3) restrictions prohibiting “best value” purchasing need to be removed, (4) states can learn from and improve practices by partnering with other governments and private organizations, and (5) most states use a hybrid of both centralized and decentralized management structures when it comes to contracting and procurement.

### INTRODUCTION

Public contracting and procurement is sometimes an area that is prone to weak management, poor oversight, or even corruption. Successful contracting and procurement is often an indicator of good management within government. It can be a very salient public issue,

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because most people buy things and hire service providers in their private lives, so they can understand government successes or failures in purchasing better than many government policies. This paper examines current data on the practice of contracting and procurement among the American states and compares these practices to principles of best practice.

One of the enduring tensions in contracting and procurement is between centralization and decentralization of decision-making authority. Specifically, we are interested in who makes the decisions, and at what level? That tension is also present with the states in this study. Managers need to work with both agencies and private contractors--many of which would rather consummate procurement and contracting agreements without any central supervision. This is especially true in the case of specialty items about which agency personnel are likely to be the most familiar. On the other hand, centralization allows for larger quantity discounts, better internal control, and better integration with accounting systems (Reed & Swain, 1997, p. 185). Regarding this debate, National Association of State Procurement Officials (NASPO) writes (2001a, p. 5), "the best of both worlds is easily possible – central management and delegation of procurement authority under a thoughtful set of delegation standards, with adequate training and authoritative monitoring." The challenge, of course, is for the organization to establish thoughtful delegation standards, adequate training, and authoritative monitoring without creating excessive red tape.

New advances and opportunities in information technology (IT) have prompted modifications in contracting and procurement, as states reconsider what, how, and where they are purchasing goods and services. While these procedural and policy responses differ from state to state, the knowledge and increased efficiency that information technology promises will certainly allow managers to become more strategic business partners with their agency customers (NASPO, 1999, p. 2).

Another major issue in public procurement and contracting is the choice between awarding bids based on the lowest price versus "best value." Traditionally, the lowest price approach awarded bids to the lowest responsible bid--with little consideration to anything other than price. Best value purchasing takes a variety of criteria into consideration. The criteria which are used may vary from one case to another, but may include life cycle costs (which sums the costs of owning and operating an asset over its lifetime), performance history of vendors, quality of goods,

proposed technical performance, timeliness, risk assessment, and the availability and cost of technical support. The goal of best value purchasing is to move away from favoring low cost goods--which may be of poor quality, risky, or have higher future costs for repairs, outages, maintenance, or training. While best value purchasing can be a good alternative, in some cases it can also be complex and subjective. It is a superior process where price is not the only important factor that should be considered in the procurement decision, and when the necessary data can be collected at a reasonable cost. It is expected that these experiences can be shared with other agencies and governments to promote the achievement of mutually beneficial goals and enhance partnerships throughout the service delivery network.

This paper draws largely from the responses of state governments to a mailed survey in the summer of 2000. The survey was a part of the financial management section of the Government Performance Project (GPP)<sup>1</sup>. These questions were answered either by budget or finance managers, or often by procurement and contract managers. Of the 50 states surveyed, 48 responded (Connecticut and Florida did not). Reporters from *Governing* followed up on this survey by interviewing state officials by telephone in the fall of 2000. Unless otherwise noted, the data source is the GPP survey. This paper supplements that survey with surveys done by NASPO in 1997 (NASPO, 1997b) and 2001 (NASPO, 2001b) as well as other published information in an attempt to more comprehensively describe current state practices in contracting and procurement.

## CONTRACTING

Service contracting is perhaps best described as an evolutionary process. A variety of factors affect government decisions to contract out—including the rapidly diversifying workplace, the expanding global economy, and increases in both fiscal strain and customer demands. From this review of states, we find that some of the keys to more productive contracting are achieving an appropriate degree of centralization of authority, applying best value practices, and improving information technology. Management techniques that can control spending while maintaining an acceptable level and quality of services, therefore, hold great potential.

These data highlight some informative trends in service contracting. One key issue relating to contracting involves the guidelines surrounding the decision to contract. Typically, states follow monetary, legal, or other organizational guidelines when they seek outside service delivery agents. Yet, these limits and requirements vary by state. As this paper suggests, while some states have very liberal limits, others maintain a fairly traditional policy on contracting. The data indicate that the expected cost of the contract and the specific service area are two of the most common variables that dictate the level of centralization of decision making in contracting.

### **Formal Bidding Requirements**

Contractor-related issues, quality concerns, project deadlines, limits on spending, and other potential problems each have contributed to the necessity that there are centralized and formal requirements that must be followed in most contracting situations. Of the 48 states reporting in this study, all but one (South Dakota) indicated that there were formal bidding requirements for, and dollar limits associated with, contracting out. Twenty-five percent of these respondents responded that while there were limits to the percentage of operating expenses that could be contracted out, these limits were “unknown”. The remaining (75 percent) respondents replied that contracting for services accounted for between 3.7 percent (in Alabama) to 40 percent (in Ohio) of their overall operating expenditures. Not one state indicated that contracting accounted for more than half of their service provision. On average, contracting consumed about 19 percent of the operating budgets for state governments. These findings suggest that while state governments are relying on outside providers to meet expanding customer needs, the majority of service provision is still done either in-house, or by some other means. Furthermore, the expected cost of the service has a direct effect on whether contractors will be used.

While some states, such as Tennessee, had extremely modest limits (\$500) on the amount of money that could be spent on contracted services without going through a formal bid process, others like Washington had very liberal limits (\$250,000). While most of the states indicate that contracting is allowed in times of emergencies, Maryland was the only state to specifically note that spending limits were ignored during these times. While it is possible that other states have similar provisions, they were not noted in the data.

Another interesting finding is that while most states indicated that they could only spend up to \$25,000 without invoking mandatory competitive bidding requirements, several states (such as Louisiana and California) said that the spending limits varied based on the service area. The highest spending cap is in those areas related to information and technology services. Providing greater flexibility and reducing delays in this area are critical to keep up with the rapid changes. An IT manager in Iowa said, "If generationally, IT changes every 15 months and I have to submit a budget on October 1 of one year and we get the money for the following July, by the time we go through notification and justification, I'm a generation behind" (Barrett & Greene, 2001, p. 76).

### **Contract Approval**

The process of approving contracts differs in those instances where a formal bid is required and those in which it is not. Most states indicate that for those contracts that do not require a formal bidding process, the agency or department head or director is most often given the responsibility to make the decision to contract out. Since most states indicated that they could spend up to \$25,000 without invoking mandatory bidding requirements, this suggests that smaller projects are more likely to involve a more decentralized decision-making process.

For contracted services that do require a formal bid, there are several groups that are commonly cited as having the authority to approve contracts. Table 1 indicates that the most common agents who approve these contracts are the central state office (CSO) and the operating department or agency head. Five states, New Hampshire, Nevada, Tennessee, Wyoming, and Alabama noted that the Governor

**TABLE 1**  
**Individuals and Organizations Involved in Contract Approval**

Number of States	Responsible Party
2	State Legislature
5	Governor
31	Central State Office or State Purchasing Bureau
31	Operating Department or Agency Head
21	Other

must validate contracting decisions. Finally, only two states indicated that the state legislature must sign off on contracts of this nature.

### **Contracting Incidence and Reasons for Contracting**

The actual incidence of contracting within specific functional areas varies among the states. Most states indicated that they use contractors to provide public works, transportation, health, human services and social welfare related activities. Only 19 states indicated that contractors were used to provide any type of general government support services. The states indicate that their largest contracts are primarily in four areas: health and welfare services, human services, information/computer technologies, and transportation (especially highway construction). Over half of the respondents noted that these areas were their highest contract-related expenditures.

When the respondents were asked to indicate what factors provided the impetus for contracting out, several reasons were cited. Not surprisingly, the most commonly cited reason to contract out was cost. While some states called this “cost efficiency” and others called it “cost effectiveness,” the common theme is that governments are interested in providing goods through contractors when these skills are available, and can be done less expensively than could be accomplished in-house. Savas (2000), Sharp (1990), and Denhardt and Hammond (1992), among others, have each identified cost efficiency/effectiveness as a prime motivator in the decision to contract out.

The second most common reason for contracting relates to available skills. Several states, such as Alabama and Washington, suggested that contracting is an appealing service delivery option when they are searching for skills or tools that they cannot provide themselves. Research by Ferris and Graddy (1986) confirms that this is a consistent theme among governments. Eight states further indicated that they used contractors because of a need for specific expertise, or because of rapidly changing technology.

Quality was another consideration in contracting. While only two states specifically noted that they use contractors because the quality of the work was better than in-house provision, many suggested that they would consider contracting only if the quality of the work was at least comparable to state-provided services. Savas (1977), Osborne and Gaebler (1992), and Benton and Menzel (1992) have argued that quality

concerns should not be overlooked when deciding whether or not to contract with private firms.

Three of the least common reasons for contracting involve the state's history of (and thereby, reliance on) contracting out, the workload of state employees, and the practicality of being able to hire new employees. Alabama and South Carolina were the only two states that indicated they contracted out because they had a tradition of doing so. Alabama was also the only state to note that contracting occurred because it often was not practical to hire new employees to meet current needs. Seven states cited the potential for work overloading state employees as a reason for contracting.

### **Monitoring, Tracking, and Assessing Contracts**

The states were remarkably similar in their assessment of bids from contractors. All of the states noted the "best value" principles of price, assurance of timely delivery, quality or performance standard for the product or service, and qualifications of the producer were taken into consideration when deciding on a potential service provider. Forty-one of the states indicated that they also considered the producer's record of performance in this decision. Clearly, states are concerned about whom they partner with for practical reasons --many of which go beyond traditional "lowest cost contractor" concerns.

Beyond these criteria, many states noted additional reasons for choosing specific contractors. The desire to promote the efforts of small businesses, women, minorities, disabled individuals, and veterans was cited by 73 percent as the reason they chose specific contractors. Kansas and Missouri also indicated that a preference was given to those contractors who promised to use recycled products (such as paper) in their delivery operations. Finally, South Carolina, Ohio, Delaware, and several other states noted that they give preferential consideration to contractors who employ their residents. Louisiana has a particularly detailed list of contractor requirements. Some of these include the following:

- Proper federal, state, and local permits and licenses (if required);
- Proper bid and performance bonds (if required);
- Proper insurance coverage and limits, as well as the rating of the provider;

- Equal Employment Opportunity Commission (EEOC) compliance; and
- Successful drug testing and criminal background checks.

The states indicated that they monitored and tracked contracts primarily through two mechanisms. Eight states indicated that contracts were overseen by the operating department, or agency only. The rest indicated that their contracts were centrally reviewed by both the operating department or agency *and* the CSO. Hawaii was the only state to indicate that they posted notice of current contracted jobs on the Internet so that they could monitor the contractor (via feedback from citizens) during the project.

The importance of oversight has been emphasized by Barrett and Green, who write (2001, p. 94), “the most important [rule] ... is the following: cities and states can turn over a huge portion of the operational elements.... But they cannot turn over responsibility.” Efficient monitoring and tracking helps to safeguard states from some common problems associated with contracting—including cost overruns, shoddy workmanship, and corruption. This data suggests that most states understand the importance of monitoring and are working to ensure that the contracts have proper oversight. Because 40 of the 48 states use both an operating agency and CSO in this capacity, it follows that not only do they recognize that this is an important issue, but it is likely that they are successful in meeting their monitoring goals.

Contractor compliance with requirements is monitored primarily through the terms and conditions stated in the contract. Most states indicated that they have written legally binding actions into their agreements that promote compliance. Hawaii, Massachusetts, and Arkansas, for example, often require performance bonds to be linked to contracts. Indiana and Ohio both use electronic tracking systems to ensure compliance. The majority of states indicate that the Office of the Attorney General is closely involved in writing, reviewing, and enforcing the legal stipulations. North Dakota uses a list of preferred vendors in contracting situations--and removes deficient vendors from this most favored list as circumstances warrant.

When asked if their state used master contracts to allow managers to obtain services on an “as need” basis, most states (90 percent) indicated that they did. In addition, 83 percent of the states noted that they had a formal policy dictating when contractors must be paid. This suggests two

things: that there is some continuity in contracts, and that states are able to dictate the terms and conditions of a large portion of their contractual agreements. Overall, it appears that monitoring, tracking, and assessment are very formal and centralized aspects of contracting, and that some states are already using “best value” principles to guide their contracting experiences.

### **Training Issues**

The respondents were asked to illustrate those ways in which managers responsible for services that are contracted out receive training about contract management. Only North Dakota and Rhode Island indicated that their managers did not receive any type of training. Most states said that they used a variety of both formal and informal, in-house training mechanisms. For example, while managers in Alabama do not receive formal training, they do receive guidance on policies from publications from the Finance Department and the Comptroller. In contrast, state contracting managers in Hawaii receive very formal schooling on contracts. Some of this includes in-house training for areas such as health and human services; federal contract compliance training; service contract training through the National Association of Purchasing Managers (NAPM); and purchasing, budgeting, and contract seminars for the agencies they work with. While only six states cited the use of outside, professional groups (such as the National Institute for Government Procurement or the NAPM) for training, many noted the need for additional training of this kind.

One of the most current and important training areas involves information technology. NASPO (1999, p. 2) indicates that states are now requiring more financial knowledge about the vendors they work with, and suggest that all departments should work with the IT department in this evaluation. In addition, they note that more and more, states are requiring information about the technology market to be able to measure the volatility of the market in which the vendor is competing, to gauge whether or not the vendor is a stable candidate to partner with, and to determine whether the product is a good value for the agency. Again, these solidify the emerging importance of using “best value” principles in contracting decisions.

The states, although unique, must each be able to assess the real value of a partnership with vendors. The data suggest that this creates both opportunities and challenges in many areas--including information

technology, centralization of authority and decision-making, and training. Many of these same issues can be applied to state procurement activities.

## PROCUREMENT

The goal of the procurement function in government is, “to obtain the most appropriate and highest quality good or service possible for the least cost” (Reed & Swain, 1997, p. 184). NASPO articulates five fundamental principles: competition, impartiality, openness, conservation of funds, and appropriate value and quality for the money. They write (NASPO, 1997a, p. 4), “those fundamentals call for a public procurement program where public business is open to competition; where vendors are treated fairly; where contracts are administered impartially; where value, quality and economy are basic and equally important aims; and where the process is open for public scrutiny.”

### **Bidding Policies**

All states have a central procurement office (NASPO, 2001b; NASPO, 1997b) and all have some formal procurement policies. In all but one state, formal procurement policies are codified in either statutes or in procurement manuals, and 54 percent codified them in both statute and the manual. The exception was Idaho where policies are specified in the rules of the Division of Purchasing. In seven cases they are specified in the directives of the Governor, but also in statute or manuals. In 38 percent of the states they are also specified in other sources, mainly promulgated regulations and administrative codes. As of 1996, 14 states have adopted the American Bar Association model procurement code (NASPO, 1997b).

All states responding had a formal process for obtaining bids on goods, yet still allowed some purchases to be made without a formal bidding process. The dollar ceiling on purchases not requiring formal bids varied from a low of \$2,000 in New Hampshire and Tennessee to a high of \$75,000 in Oregon and Vermont. The average value was \$18,300. Table 2 indicates the distribution of states. Most states (90 percent) allow managers full authority to make purchases without higher-level approval. In 73 percent of the states, a specific dollar limit on this authority is established. This amount ranges widely from a low of \$250 in Missouri to a high of \$100,000 in Virginia and Washington, with an

average of \$17,653. In the eight other cases, the amount varies. NASPO reports that 65 percent of the states have expanded the delegation of procurement authority between 1998 and 2000 (NASPO, 2001b). A recent study of U.S. cities and counties found that the two most common methods of decentralizing purchasing authority were increasing the dollar limits up to which agencies can issue purchase orders without central approval and the use of purchasing cards (McCue & Pitzer, 2000, p. 413). These limits are important indicators of the degree of centralization. As is discussed below, use of purchasing cards has increased at the state level, although there is room for further expansion.

Formal bids generally require the approval of either a CSO (75 percent) or the operating department or agency (73 percent). In 50 percent of the cases, the approval of both of these parties is required. Only four percent (two states) responded that neither of these parties was involved; in Michigan a State Administrative Board fills that role, while in Nebraska the Materials Administrator of the Department of Administrative Services does. In only a few cases was the approval of either the Governor or legislature required. In Wyoming and South Dakota, the Governor's approval is required for certain service contracts, and in Minnesota the legislature was involved.

Where formal bids were not required, generally the agency was vested with the authority to make procurement decisions. In 73 percent of the cases, the agency had full approval authority. In 15 percent, the agency and/or a CSO jointly held the authority, while in four percent this responsibility was that of the CSO, not the agency. In eight percent it varied. This indicates a relatively high degree of decentralization.

**TABLE 2**  
**Dollar Limit for Purchases Made without a Formal Bidding Process**

Amount	Number of States
0 - \$5000	9
5,001-10,000	13
10,001 - 15,000	3
15,001 - 20,000	2
20,001 - 30,000	17
30,001 - 50,000	1
50,001 - 100,000	2
Not Available	1

### Contract Administration

Master contracts are used extensively by most states. Many states report having over 100 such agreements, and some over 1,000. Massachusetts reports that typically 84 percent of their goods are purchased through master contracts. Utah's target is for 80 percent of commonly needed goods to be on statewide contracts. Goods purchased under master contracts tend to be for repetitively purchased items, such as office supplies, vehicles and parts, food, computers, and software. Michigan has a master contract for all desktop computer products and services, which substantially reduces costs due to volume discounts and low contract management costs (NASPO, 1996, p. 5). Missouri's Prime Vendor Initiative establishes a single vendor contract that gives agencies a choice of many products with a single point of contact and service quality guarantees (Barrett & Greene, 2001, p. 81). Very significant savings are reported in some cases: for instance, Kentucky reports saving over \$6 million per year. However other states use them only in a limited way. While there is apparently broad use of master contracts, Barrett and Green (2001, p. 82) warn, "[w]hile master contracts are a grand idea, there is room for potential problems with their overuse. Some governments have found themselves with so many master contracts in place that they begin to lose their natural efficiencies."

As Table 3 indicates, in almost all cases, states reported assessing the aspects of price, timely delivery, performance standards, producer qualifications, and performance records in awarding a bid. While states seem to be moving beyond traditional procurement systems toward a more comprehensive decision-making process, the degree of use of these factors or their weights in the decision-making process cannot be

**TABLE 3**  
**Factors Assessed in Evaluating Bids**

Number of States	Factor
48	Price
47	Assurances of timely delivery
47	Quality or performance standards for the product or service
45	Qualifications of the producer
43	Producer's record of performance

ascertained from this aggregate data. One Alabama official commented, ““You cannot get around low bid. And believe me, we’ve brought this up a few times to state purchasing; but they are attached to it’ Why? ‘There’s less grief, it keeps them out of jail’” (Barrett & Greene, 2001, p. 80).

According to NASPO (2001b), life cycle costing was used by 76 percent of the states, most commonly for goods such as vehicles, heating and cooling equipment, and copiers. For example, Colorado reports that state law requires cost analysis for contracted services. Some states using best value include Texas, Massachusetts, New York, Missouri, and New Mexico (NASPO 1998, pp. 5-6). Therefore it seems that some degree of best value purchasing is present in almost all states, and that its use is increasing.

A variety of social preferences are used in vendor selection. Fifty-eight percent of the states have a preference for businesses based in their state and 30 percent have a “buy American” law. Some have set-asides for minority and women-owned businesses, or for small businesses. Others assist economically disadvantaged businesses to compete for state contracts. Eighty-six percent have preferences for recycled products.

States report using a wide variety of measures to attempt to ensure compliance with the terms of a bid. Some of these are relatively passive, such as reliance on complaints. Many are punitive, such as contract termination, suspension, and refusal to pay. Performance bonds and sureties are also employed. Others involve more interaction with the contractor through the life of the contract, such as post-award conferences, performance clauses, monitoring by the agencies, and compliance audits. NASPO (2001b) reports that 72 percent of the states track vendor performance and 76 percent require performance guarantees. Eighty-six percent include specific, measurable performance requirements. Of these, 36 percent said these requirements were in most contracts, 44 percent in some, and 19 percent in few contracts (NASPO, 2001b). It is unclear from either data source which compliance measures are most commonly used.

While it is important to ensure compliance, there are disadvantages to certain methods. MacManus (1992) reports that requiring bonds for bidding, payment, and performance were mentioned as negatives by businesses, especially minority-owned businesses. This suggests that these businesses might be less likely to bid on state contracts with these

requirements. An alternative to punitive compliance measures is to improve communications where both parties can negotiate issues. Pennsylvania provides a model in tracking vendor performance through the life of the contract by requiring that agencies complete periodic evaluations and by scoring vendors throughout the life of each contract. Louisiana has developed a Quality Procurement Assessment and Training program whose function is to educate agencies in contract administration and performance monitoring.

The responsibility for procurement oversight is given to only one entity in 21 states, but in the other cases it is distributed to as many as five (see Table 4). Where three or more agencies are involved, it is possible that too many cooks might spoil the soup. Unless responsibilities are clearly delineated, these states might consider streamlining of this responsibility. In 46 states, a CSO is involved in oversight, typically sharing that responsibility with agency heads or department heads (sub-divisions of agencies). In 23 states, agency heads have this responsibility, and in 20 states, department heads do. The governor's office is involved in only five states, and legislative committees in seven states. In seven states, other agencies are involved. This profile suggests a hybrid between centralization and decentralization, where the central purchasing agency is involved along with an agency and/or department. The involvement of elected officials is limited.

All responding states, except Maine, allow special purchasing authority in the case of emergencies. In 71 percent of these states, this authority is granted to all agencies. In 19 percent, the authority was granted to a central agency, and in six percent it is done on a case-by-case basis.<sup>2</sup>

**TABLE 4**  
**Agencies Responsible for Procurement Oversight**

Number of Agencies	Number of States
1	21
2	6
3	8
4	11
5	2

In the 1997 NASPO survey, 61 percent reported knowledge of instances of “back door selling,” where vendors influence users to induce preference and constrain competition (NASPO, 1997b). While 96 percent of the respondents thought this practice interfered with fair competition, in only 24 percent of the cases was there an established format for reporting non-competitive bidding to the Attorney General.

### **Purchasing and Information Technology**

This is a major area of change in procurement. Some states have taken some very innovative steps that will enhance the value of their purchases. Perlman (2001, p. 70) reports that as of 2001, 14 states have established e-procurement initiatives, while 12 others are beginning to do so. Virginia is a model state in this regard. Some of their innovations are the following:

- An electronic “E-mall,” developed in August, 1999, which helps procurement staff make best value purchases over the Internet from dynamic catalogues and statewide master contracts using purchase cards.
- Statewide electronic procurement, “which will allow for the following electronic functions: placing a requisition, ordering a product, processing a requisition and drafting a solicitation, sending the solicitation and receiving a bid or offer, making the contract award, tracking a product’s delivery, receiving a product and processing payment” (Commonwealth of Virginia, 2000, p. 126).
- A central procurement website for vendor registration, which will also push e-mail to vendors from customers.
- A virtual surplus inventory, which will flag purchasing agencies and let them know about available surplus inventories that may meet their needs.
- Records, data, and documents managed electronically and made available more widely.

One of the most commonly reported frustrations by contractors is the amount of paperwork in the application process (McManus 1992, p. 120). States like Virginia that reduce this paperwork by the use of IT should be able to reduce vendor frustration and potentially increase their vendor pool.

Purchasing cards are fairly widespread, as 86 percent of the states have them (NASPO, 2001b). They apparently are producing important benefits. One source reports that on average, it costs about \$125 to process a paper transaction compared to between \$5 and \$15 by doing so electronically (Perlman 2001, p. 70). However use of information technology in procurement is uneven across the states and within states. For example, while 81 percent report having an automated procurement system (APS) and 63 percent use electronic ordering, only 26 percent have integrated e-commerce, and 21 percent integrate the APS with an asset management system (NASPO, 2001b). The degree of IT use is hampered in some cases by lack of IT support or ability. In Iowa, limited funding and resistance to change were cited as a barrier, and Montana reported a need to make a case for e-procurement to demonstrate its benefits to vendors and customers.

Another important issue is the degree of integration of purchasing software with accounting and other software. Seventy-two percent report having established standards to ensure statewide compatibility of IT equipment and software (NASPO, 2001b). For example in Arizona, agencies' procurement software is not compatible with that of the state procurement office. At the other extreme, Maryland's integrated system allows for verification of approved funding, checks to ensure that the order is not above the amount approved, and then establishes an encumbrance. This can greatly reduce paperwork, speed up the approval process, and improve inventory management. The goal that NASPO (1999, p. 6) articulates here is that, "[w]hen embracing [electronic ommerce], the central procurement office must do more than simply automate current procedures.... This re-engineering should ... insure that information moves seamlessly within the departments and agencies of the jurisdiction, from government to other governments, to citizens and private sector entities."

Improved technology in this area can improve purchasing by reducing the tension between centralization and decentralization. Minnesota reports that their IT system allows them to get the best of both worlds as they are able to, "track contract usage, vendor activity or the amount of different commodities purchased. The ability to track statewide purchasing has played a role in allowing the decentralization of authority to agencies for local purchase of smaller-dollar acquisitions. This allows the centralized purchasing organization more time to concentrate on the larger, more technical purchases, as well as on

contract development and administration.... It is especially useful in determining items that should be put on state-level contracts for commodities or services” (State of Minnesota, 2000, p. 46). Similarly, Tennessee monitors volume usage through its on-line purchasing system, allowing purchasing agents to get reports on actual volume that enables them to get the best price available.

While updating IT systems to decentralize procurement, states also need to ensure that agencies have appropriate levels of training. Several states mentioned weak agency training as a barrier to effective decentralized procurement. John Leaston, North Carolina state purchasing officer, said that, “We need to allocate more of our resources to training, because as you give agencies more responsibility, you need to make sure they are trained adequately” (Mariani, 2000b). Some states (Virginia, Texas, Oregon, Minnesota, Alaska, and Wisconsin) have tied increasing agency purchasing authority with training and the ability of agency staff to demonstrate competencies in critical skill areas (NASPO, 1999, p. 4).

In 1993 the National Commission on the State and Local Public Service (1993, pp. 34-35) wrote that, “by far the greatest impediment to fast, sensible government contracting and procurement practices is the multiple layers of approval through which requisitions must pass. The process has become so complex and so expensive that many of our best companies refuse to bid on government contracts because it is simply not worth the time and effort.” Improved information technology has the potential to greatly reduce the costs and time associated with this process, thereby attracting more good bids from reputable companies. Expansion of vendor pools was one of the main methods discussed by MacManus as a way to accomplish the goals of competition, fairness, efficiency, and openness.

One alternative suggested by NASPO are “problem oriented bids,” which state the problem the agency needs solved, leaving it to vendors to suggest solutions. Rather than detailing specifications that vendors are required to follow, vendors can propose different technological solutions and let the agency choose among them. An example of this is Kentucky’s “Strategic Alliance Services” which moves away from a prescriptive Request for Proposal (RFP) process for IT services to one which allows vendors to suggest alternative solutions, and allows agencies to use alternative funding and risk-sharing approaches, and partnerships and sub-contracts that allow greater access to specialized expertise. Louisiana

has a similar policy. Other states using some version of problem oriented bids include Indiana, Michigan, California, and New York (NASPO, 1998, pp. 10-11). California's process is particularly instructive:

In at least some major procurements, California uses a multi-staged process, in which they first request a high-level concept paper from vendors. They then engage in discussions with responsive vendors, and then request a more detailed proposal from each based on a more detailed set of requirements. This may continue through several iterations of detail. Through this process and until the final submission, vendors do not provide actual pricing and are free to disengage from the process. Although this process is more time-consuming and more costly than a single-phase procurement, it allows the state to refine its requirements based on vendor input, and it allows vendors to fully understand exactly what the state is looking for (NASPO, 1998, p. 10).

### **Challenges and Problems in Purchasing**

Some smaller states lack the volume to attract vendors, and more remote states report a low availability of vendors. For example, South Dakota reports that it is difficult for field offices to get three bids on smaller contracts because of the paucity of potential suppliers. Vermont reports that there are only two providers of pavement materials in the state that makes competitive bids difficult to attain. Many states report problems with restrictive statutory or even constitutional provisions. The following are among these:

- North Dakota exempts several commodities from the authority of the central procurement agency.
- Missouri reports that socio-economic preferences adversely affect competition among vendors and the potential for volume discounts.
- Alabama has an advertising requirement that makes it difficult to take advantage of special offers.
- Arkansas has a constitutional provision mandating that all printing be bid out, no matter the size.

### **Improvements and Innovations**

Many states are engaged in cooperative purchasing to some degree. NASPO (2001b, p. 80) reports that in 46 states, there was statutory

authorization for cooperative procurement with different units of government and in 34 states this included multi-state purchasing. There are both costs and benefits to this practice, but in general it is seen positively. Ron Jones, New Mexico deputy state purchasing agent, said that cooperative purchasing, “is an area that is going to benefit a lot of us, especially within smaller states” (Mariani, 2000a). Aronson and Schwartz (1996, p. 370) write, “Although it may be time consuming and sometimes costly to get started, cooperative purchasing has compelling advantages for smaller local governments, including more buying power, more accurate and comprehensive specifications, and better vendor service.” Many states include their local governments in cooperative purchasing initiatives; for example, North Carolina and Nebraska include their local governments and state universities in their state contracts. NASPO (2001b) reports that all responding states authorized cooperative purchasing with other governments, most commonly other state governments (93 percent), local governments within the state (86 percent), or the federal government (57 percent). Six states were authorized to cooperate with other countries. New Mexico goes even farther, applying identical procurement code provisions to the State, universities, and all local governments, which makes pooling easier (NASPO, 1996, p. 5). The Western States Contracting Alliance is a purchasing pool including 15 states that was formed in 1993.<sup>3</sup> In all, 33 states participate in multi-state contracts (NASPO, 2001b). Utah’s State Travel Office provides travel services to state agencies, local governments, and state universities with a contract travel agency. It estimates that in 1999 it saved the state \$5.4 million in airfare alone. However some states, such as North Dakota, are statutorily prohibited from cooperative purchasing with other states.

A recent study by McCue and Pitzer (2000, pp. 417-418) indicates that when city and county purchasing officers were asked how they expected the involvement of their office to change in the next five to ten years, the four most commonly mentioned areas were developing electronic data interchange and credit card supply systems, participation in purchasing cooperatives, developing and providing training, and measuring customer satisfaction. These responses are very similar to those mentioned by state managers, indicating that the trends are national in scope.

## CONCLUSION

As always, the American states are characterized by diversity. There is a wide range of need and capacity, and some states have been more aggressive in initiating new policies or management practices to address these needs. This is particularly true in information technology, cooperative purchasing, and the use of best value purchasing. The effort to decentralize authority that was initiated by the reinventing government movement has had disparate influence among the states. This is not surprising, as states vary widely in size and scope. Despite this variation, in most cases, contracting and procurement decisions are made by a CSO and the relevant agency, and the functions of government most commonly contracted out are in the areas of health and human services, transportation, and IT. Social preferences for the award of contracts exist in many states.

Perhaps the most important lessons in this area for states are as follows:

- Information technology needs are critical. States must first develop good strategies to acquire the needed goods and services, and second, employ technology as a tool to allow information to be easily used by all parties inside and outside government. Technology should not be an obstacle, but a means to the end of better government.
- Training must improve quickly, and well-trained people need to be retained. Most of the training now is informal, the quality of which is likely to be uneven. Well-trained agency staff is a necessary condition for the goals of decentralization and economical government.
- While best value purchasing is not always the best alternative, some states must loosen archaic restrictions that effectively prohibit it. Any consumer knows that the cheapest good is not always the best choice. States should, too.
- States can enhance their contracting and procurement activities by learning from the experiences of other states and organizations. Many of the best practices noted in this paper have evolved over time and have been “borrowed” from other organizations. Contracting and procurement can only continue to be perfected with on-going use and information sharing. These partnerships are

crucial to a greater understanding of both procurement and contracting at all levels of government.

- State use a mix of both centralized and decentralized decision-making and management structures in contracting and procurement. While the effective use of information technology, best-value practices, and training can pave the way for greater decentralization, there is still work to be done.

#### NOTES

1. The Government Performance Project is a collaborative effort involving *Governing* magazine and Syracuse University's Maxwell School, funded by the Pew Charitable Trusts. Its purpose is to evaluate the management capacity and performance of U.S. state and local governments.
2. In the case of Oklahoma, the response was unclear.
3. See <http://www.aboutwsca.org>.

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