



Admin MINNESOTA

Department of Administration

November 19, 1996

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Patrick E. Flahaven
Secretary of the Senate
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Gentlemen:

The 1995 Minnesota Legislature authorized a purchasing pilot project that exempts one executive branch agency from "any law, rule, or administrative procedure that requires approval of the commissioner of administration before an agency enters into a contract" [Minnesota Laws 1995, Chap. 248, Art. 13, Sec. 4, Subd. 2]. The mission of the purchasing pilot, as specified by the legislature, is to "establish a process to ensure that agencies obtain goods and services in [the most efficient and cost-effective] manner, while removing rules and procedures that cause unnecessary inefficiencies in the purchasing system" [Subd. 1]. The legislation also specified that: (1) guidelines be developed to prevent conflicts of interest in the purchasing process; (2) the Department of Administration design and implement an evaluation system, in consultation with the pilot agency; and (3) Administration and the pilot agency make two reports on the progress and results of the project — one in October 1996 and the other in October 1997. This is the first of those reports.

Implementation of the purchasing pilot began in August 1996. Considerable planning occurred prior to that time, and as a result, little evaluation information has been collected. This is, therefore, primarily a status report, describing development of the pilot project, the pilot's policies and procedures, methodology for evaluation, performance measures, potential obstacles, and next steps.

BACKGROUND

The legislature authorized Administration to choose a partner from the executive branch to participate in a purchasing pilot project. The Minnesota Department of Transportation was chosen as the purchasing pilot agency.

Mn/DOT's decision to participate as the pilot agency was driven by:

- a desire to provide the best customer service possible by taking advantage of the purchasing skills available in the inventory centers and business offices; and
- the possibility of improving inventory management by having more purchasing activity done by the inventory centers and business offices.

Mn/DOT management selected its interagency Materials Management Team (MMT), which includes Administration's director of the Materials Management Division, to be responsible for implementing the pilot. The Materials Management Team selected a 17-member purchasing pilot team, consisting of Mn/DOT and Administration managers, purchasers, and customers.

The pilot team's vision is "a system for purchasing in Mn/DOT that provides internal and external customers with high-quality materials, equipment, and services when needed and at the best cost for the quality and services required. The system will be the most efficient and effective under current laws and considered the best in class. This program will be modeled by other state agencies." The team's mission is "to create and manage the development, implementation, performance, and documentation of a cooperative purchasing environment between Mn/DOT and Administration based on service required by the customer."

The pilot team used a structured process to identify desired project outcomes or goals as well as performance measures that would be used to determine success. The pilot team also developed purchasing pilot policies, which were endorsed and approved by the MMT and the commissioner of Transportation and offered training to inventory centers on the new policies and procedures.

The pilot team created sub-teams to explore:

- professional/technical contract management
- ethics (pilot integrity)
- building construction
- commodity contracts
- delegated purchase authority
- road equipment

These sub-teams recommended performance measures and changes in purchasing policies and procedures to the purchasing pilot team.

PURCHASING GUIDELINE DIFFERENCES

Differences between the guidelines defining the current purchasing process and the new pilot process are summarized in this table:

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CURRENT PURCHASING POLICY GUIDELINES	PILOT PURCHASING POLICY GUIDELINES																								
1. Administration determines the method for all purchases of more than \$5,000 and for all contract purchases	1. Mn/DOT determines the method for all local purchases and for all contract purchases																								
2. Administration determines purchasing and contracting procedures	2. Mn/DOT determines purchasing and contracting procedures																								
3. Delegated purchase authority limited to \$5,000	3. No dollar limit on delegated purchase authority																								
4. Purchases of more than \$5,000 must be processed by Administration	4. Purchases processed by Administration at the option of Mn/DOT																								
5. Bids required: Less than \$500 = 1 \$500 - \$1,500 = 2 More than \$1,500 = 3 minimum, if available	5. Bids required: Less than \$5,000 = 1 \$5,000 - \$15,000 = 2 More than \$15,000 = 3 minimum, if available																								
6. Sole source and emergency determined by Administration	6. Sole source and emergency determined by Mn/DOT																								
7. Administration establishes all commodity contracts	7. Mn/DOT may establish its own commodity contracts																								
8. Required use of Administration contracts	8. Optional use of Administration contracts, subject to legal constraints																								
9. Targeted (TG) /Economically Disadvantaged (ED) vendors: TG = 6% ED = 4%	9. Targeted (TG) /Economically Disadvantaged (ED) vendors: <table border="1" data-bbox="908 1266 1387 1521"> <thead> <tr> <th>Commodity</th> <th>TG</th> <th>ED</th> </tr> </thead> <tbody> <tr> <td>Less than \$5,000</td> <td>6%</td> <td>4%</td> </tr> <tr> <td>\$5,000 - \$15,000</td> <td>4%</td> <td>2%</td> </tr> <tr> <td>More than \$15,000</td> <td>2%</td> <td>1%</td> </tr> <tr> <th>Building Construction</th> <th>TG</th> <th>ED</th> </tr> <tr> <td>Less than \$100,000</td> <td>6%</td> <td>4%</td> </tr> <tr> <td>\$100,000 - \$250,000</td> <td>5%</td> <td>3%</td> </tr> <tr> <td>More than \$250,000</td> <td>4%</td> <td>2%</td> </tr> </tbody> </table>	Commodity	TG	ED	Less than \$5,000	6%	4%	\$5,000 - \$15,000	4%	2%	More than \$15,000	2%	1%	Building Construction	TG	ED	Less than \$100,000	6%	4%	\$100,000 - \$250,000	5%	3%	More than \$250,000	4%	2%
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10. Building construction bids are opened in St. Paul	10. Building construction bids are opened locally																								
11. Advertising media are determined by Administration	11. Advertising media are determined by Mn/DOT																								
12. All professional/technical service contracts must be approved by Mn/DOT's central office, as delegated by Administration	12. Increased signature authority for professional/technical service contracts delegated to districts and offices																								
13. Annual plan approval by Administration required for professional/technical services up to \$500	13. No annual plan required: may contract for professional/technical services up to \$5,000																								

EVALUATION

The pilot project design included identification of goals and performance measures that would allow for evaluation of the project in terms of Mn/DOT's objectives as well as in terms of those established by the enabling legislation. The Mn/DOT offices and districts that chose not to participate in the pilot project will serve as a control group. Purchasing performance measurement data will be collected throughout the life of the pilot project. At the end of the pilot, the performance of the participating offices and districts will be compared with that of the control group, with the differences in results, positive or negative, being attributed to participation in the purchasing pilot project. Through agreement by both departments, Administration's Management Analysis Division was selected to perform the evaluation, in consultation with Mn/DOT and Administration's Materials Management Division.

Performance measures The purchasing pilot team has specified the outcomes and measures that will determine the extent of the pilot project's success. The outcomes, which include all outcomes specified in the authorizing legislation, are: (1) increased customer satisfaction, (2) reduced staff time in purchasing, (3) reduced time to receive goods and services, (4) improved quality of goods and services, (5) reduced cost of goods and services, (6) increased flexibility of the purchasing process, (7) increased participation by targeted, local, and economically disadvantaged vendors, and (8) maintenance of the ethical integrity of the purchasing process.

The Management Analysis Division agreed with the outcomes selected, and worked with Mn/DOT's Measurement and Evaluation Section, purchasing customers, and purchasers in developing the measurement tools. These tools are: (1) a survey of customers of the purchasing system, (2) a tracking form on a selection of individual purchases, (3) reports from the state's computerized procurement system, and (4) routine audit reports.

POTENTIAL OBSTACLES

Although more may appear before the pilot project is completed, two potential obstacles have already been identified — time delays and data collection issues.

Time delays The authorizing legislation calls for a pilot project of up to two years in length. After the necessary selection of a pilot agency and that agency's planning of guidelines and processes, the pilot project got under way in August 1996, leaving 11 months for the pilot project. This shorter time span may cause results to be understated, because certain effects will appear only over time as experience with the new system is gained.

Data collection issues An obstacle to collecting data for evaluation of the pilot project has arisen because some necessary data is not consistently entered into the state's computerized purchasing system. To counteract this, the pilot team will supplement the data with information obtained from employees, which is also more time-intensive to collect.

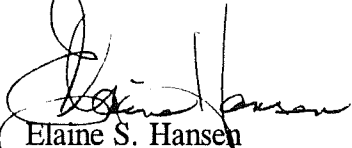
LEGISLATIVE INITIATIVES

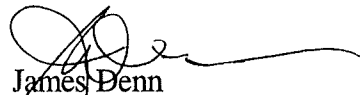
In order to address the time delays addressed above, Mn/DOT is submitting a legislative initiative that requests a one-year extension of the pilot project. This will provide for a 23 month pilot period, more closely approximating the time period initially authorized by the legislature. Additionally, Administration is conducting an internal procurement reform initiative that may result in a legislative initiative from Administration relating to statewide purchasing reform.

NEXT

The next steps of the pilot project are to: (1) collect performance data throughout the life of the pilot project; (2) continue to identify potential obstacles to the project; (3) continue to adjust policies and procedures for continuous improvement; (4) compile the performance measures at the end of the pilot project and evaluate the extent to which the pilot succeeded in achieving its mission; (5) determine recommendations to the legislature regarding state purchasing reform; and (6) report to the legislature in October 1997.

Sincerely,


Elaine S. Hansen
Commissioner
Department of Administration


James Denn
Commissioner
Department of Transportation