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**MINNESOTA DEPARTMENTS OF  
ADMINISTRATION—TRANSPORTATION  
PURCHASING PILOT PROJECT**

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**YEAR 1 REPORT TO THE LEGISLATURE  
1997**

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December 24, 1997

The Honorable Arne Carlson  
Governor, State of Minnesota  
130 State Capitol

Patrick E. Flahaven  
Secretary of the Senate  
231 State Capitol

Edward A. Burdick, Chief Clerk  
House of Representatives  
211 State Capitol

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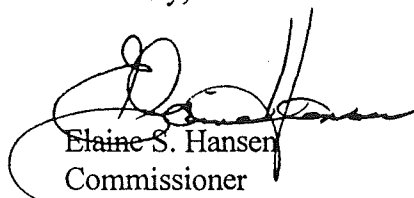
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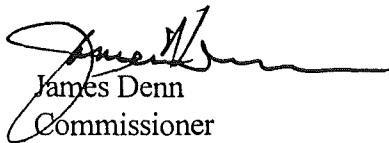
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Gentlemen:

Pursuant to Minnesota Laws of 1995, Chapter 248, Article 13, Section 4, Subdivision 2, the departments of Administration and Transportation, the select pilot agency, must report to the legislature on the status and recommendations of the purchasing pilot project. The completed Year 1 Purchasing Pilot Project Report is enclosed.

Sincerely,

  
Elaine S. Hansen  
Commissioner  
Department of Administration

  
James Denn  
Commissioner  
Department of Transportation

c: Rep. Phyllis Kahn



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# EXECUTIVE SUMMARY

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The 1995 Minnesota Legislature authorized a state government purchasing pilot project and required the agency selected for the pilot — the Minnesota Department of Transportation (Mn/DOT) — and the commissioner of Administration to “make recommendations for legislative changes needed to ensure that the state will have the most efficient and effective system possible for purchasing goods and services” [Minnesota Laws 1995, Chap. 248, Art. 13, Sec. 4, Subd. 2]. This report summarizes those recommendations, the processes and input used to reach them, and the status of the pilot initiative.

The goal of the Mn/DOT purchasing pilot project was to create a system that would:

- provide internal and external customers with high-quality materials, equipment, and services when needed and at the least cost;
- be the most efficient and effective possible under current laws; and
- be considered best in its class.

Specific outcomes and performance measures were established to determine whether the pilot succeeded in realizing its goal. Preliminary performance measurement data indicates that the pilot project has had some success in slightly increasing customer satisfaction, halving throughput time in Building Construction contracting, and increasing the amount of purchases from local vendors.

In 1996, the Department of Administration launched its own reform initiative, convening a 14-agency procurement reform steering committee. Participants in the Mn/DOT pilot project and members of the procurement reform steering committee strongly concurred that comprehensive procurement reform is necessary and overdue, and substantial progress toward reform has been made. Delegated purchasing authority has been considerably increased to trained individuals. A state purchase card is in use at the departments of Human Services, Natural Resources, and Transportation and its use is being expanded to other agencies. State purchasing from minority- and female-owned businesses is being studied to ensure the constitutionality of Minnesota’s practices. A great deal of information of interest to the vendor and buyer communities is now available online.

However, achievement of significant additional progress requires that the legislature remove statutory barriers to efficient and effective purchasing. Among the key recommendations are that the Minnesota Legislature:

- recognize the concept of “best value” to allow full consideration of quality, reliability, environmental conditions, vendor performance history, life-cycle costs, and other relevant factors in determining how the state best spends public dollars.

- eliminate statutory language that prevents the state from engaging in electronic commerce or purchasing state-of-the-art technology. Similarly, increase statutory dollar thresholds that have not been adjusted for inflation.
- develop less costly and more effective alternatives to percentage preferences for corrections industries, sheltered workshops, targeted-group and economically disadvantaged vendors, and recycled products.
- amend Minnesota law to comply with international trade agreements.

A broad consensus exists both within the state and on a national level concerning which standards constitute "best practices" in public purchasing. By enacting the recommendations contained in this report, the Minnesota Legislature can bring these best practices to Minnesota and reform laws that are out of date and often ineffective. The departments of Administration and Transportation view this as a unique opportunity to improve state government and are eager to assist you in meeting this challenge.



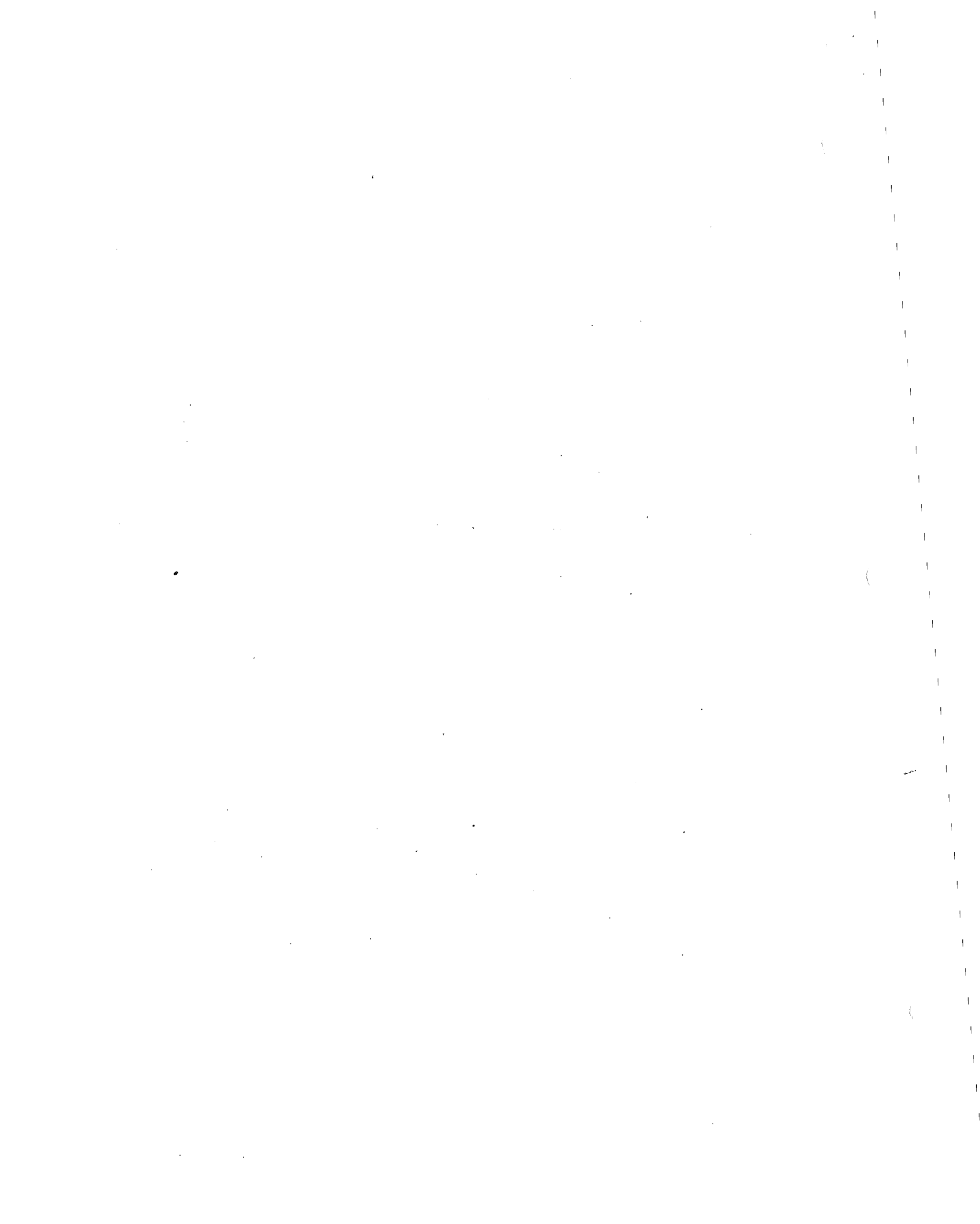
# INTRODUCTION

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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 Department of Transportation was selected as the pilot agency. The project purpose was 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 (1) that guidelines be developed to prevent conflicts of interest in the purchasing process; (2) that the Department of Administration design and implement an evaluation system, in consultation with the pilot agency; and (3) that the agency involved in the pilot project and the commissioner of Administration "make recommendations for legislative changes needed to ensure that the state will have the most efficient and effective system possible for purchasing goods and services." The Department of Administration's Management Analysis Division was contracted to conduct the evaluation. In the first special session of 1997, the legislature authorized a one-year extension of the pilot project.

In 1996, the Department of Administration convened a purchasing reform steering committee of representatives from 14 state agencies, comprising the vast majority of state purchasing dollars, and from private industry. The purpose of the steering committee was to recommend administrative and legislative changes to the state's purchasing system.

The intent of this report is to inform the legislature of recommendations for purchasing reform and how these recommendations stem from lessons learned during the purchasing pilot and from Administration's purchasing reform steering committee. Preliminary results of the pilot project's evaluation are contained in Appendix A. Final results and further recommendations will be contained in the next legislative report, due in October 1998. A description of the steering committee's history and methods is contained in Appendix B.



## PROCUREMENT CHANGES UNDER WAY

Relying on the pilot project's experience and the recommendations of the multi-agency steering committee, the departments of Administration and Transportation have concluded that procurement reform is much-needed and overdue. Rather than wait for legislative reform, the departments have begun making changes when it is within their authority to do so. The overall intent of the changes is to simplify, streamline, and modernize the state purchasing process. A key component involves increased delegated authority from the commissioner of Administration to those agencies wanting more responsibility for purchasing activities. Early results of the pilot project at Transportation indicate that an internally motivated agency with adequate resources can succeed with additional autonomy and authority.

A number of changes recommended by the steering committee and not requiring amendment of existing laws are completed or in process:

- Purchasing authority of \$5,000 or \$15,000 has been extended to trained individuals in agencies, at the discretion of their commissioner. Criteria are being developed for delegation at higher levels. The pilot project and steering committee have shown that agencies strongly desire higher authority levels and that higher levels may have beneficial consequences.
- Revised training materials have been prepared on local purchasing authority and the use of professional/technical contracts.
- A purchase card has been piloted at three agencies (Human Services, Natural Resources, and Transportation) and will now be expanded to other interested agencies.
- A study is under way to (1) conduct a statistical analysis of purchasing from minority- and female-owned small businesses that will ascertain the constitutionality of the existing preference program and (2) make recommendations regarding race- and gender-neutral alternatives to the existing program.
- A new Administration Web site contains up-to-date information on requested topics, including buyers on staff and available contracts.
- Simplified methods have been developed to allow agencies to report vendor performance problems. A customer work group is being established to assess rule changes needed to better balance state interests with those of vendors, particularly as related to the suspension and debarment process.
- A shift has been made from Administration's focus on the direct provision of services to a focus on larger, more complex purchases and its central management responsibilities.

## FURTHER REFORM

Much of what can be accomplished without statutory amendment is under way through the pilot project and the multi-agency procurement reform initiative. However, further reform is needed.

In its procurement pilot project statute, the legislature declared, "The primary purpose of the laws governing state contracting is to ensure that state agencies obtain high quality goods and services at the least cost and in the most efficient and effective manner." Furthermore, the purpose of the pilot project "is to establish a process to ensure that agencies obtain goods and services in this manner, while removing rules and procedures that cause inefficiencies in the purchasing process."

Although several administrative barriers to more efficient purchasing have been removed, three major sets of barriers remain. First is the public-sector context in which state agencies operate. Unlike the private sector, state government must always be able to defend its purchasing actions in a court of law and prove that they were not arbitrary, capricious, or discriminatory. It is given that the law requires open and competitive processes that provide assurance of due process for adversely affected parties, so no change in this area is possible, or sought.

The second set of barriers to efficient purchasing can be found in Minnesota statutes. Numerous mandates added to the state's purchasing laws directly conflict with the "primary purpose" of obtaining "goods and services at the least cost and in the most efficient and effective manner." Each mandate is defensible from a public-policy perspective; yet the sum of these mandates is a more complex, costly, and frustrating purchasing process that often fails to meet the objectives behind the mandates. Most steering committee recommendations that would be controversial fall within this category. Acknowledging the policy rationale behind the mandates, the steering committee identified alternative methods that would address the public-policy objectives and be less costly and more effective.

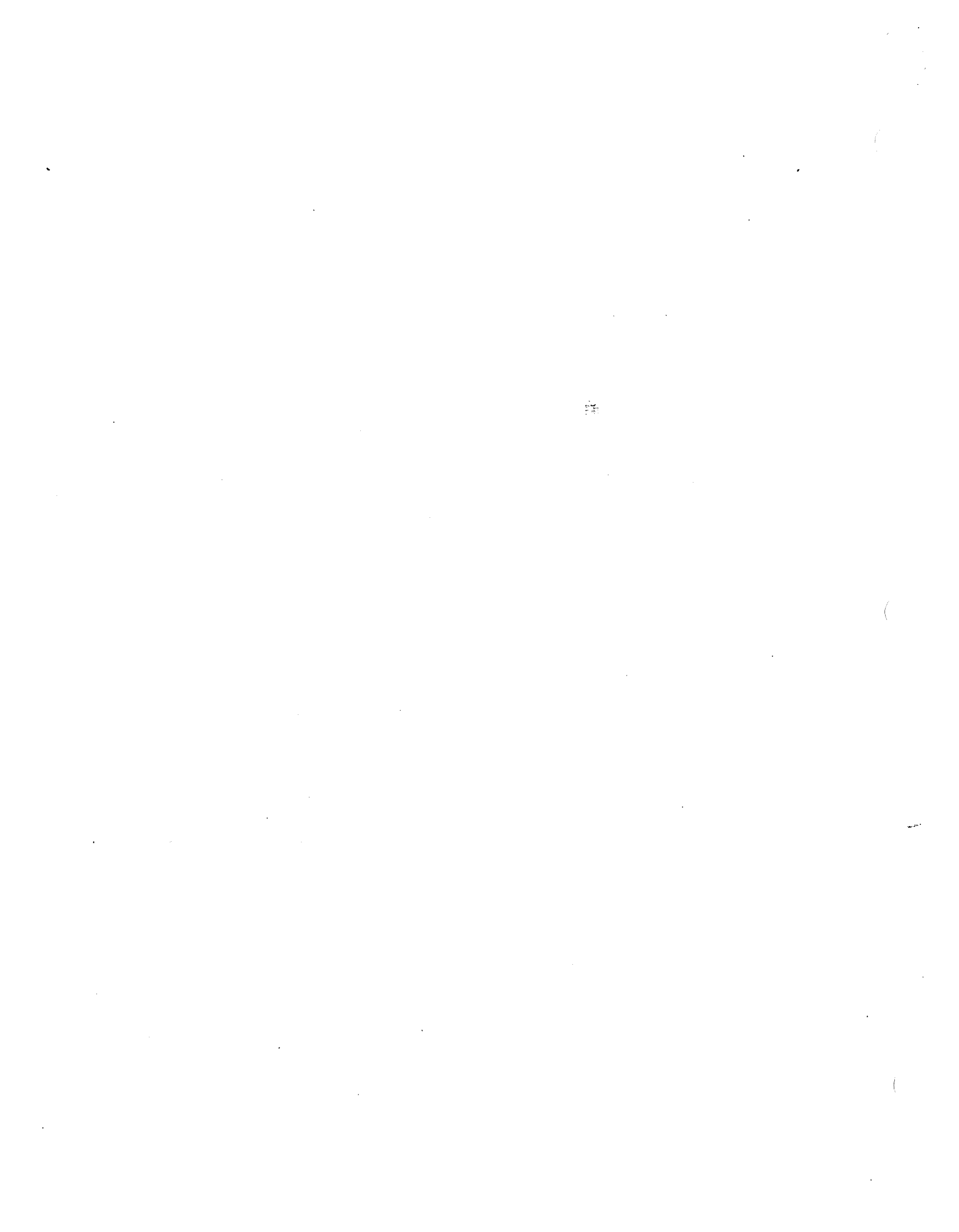
The third set of barriers is statutory language that needs to be updated. Examples include dollar levels set in law but not adjusted for inflation and purchasing protocols designed for the era prior to electronic communication.

# RECOMMENDATIONS

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The commissioners of Administration and Transportation endorse the work of the multi-agency procurement reform steering committee and the procurement reform pilot. An opportunity exists to significantly improve the efficiency and effectiveness of government with the passage of a reform agenda that would include the following key recommendations:

1. Adopt the concept of “best value” to allow full consideration of quality, reliability, vendor performance history, environmental conditions, life-cycle costs, and other factors in determining how the state best spends public dollars. Require that price — but not the low bid — be a consideration in all “best value” awards.
2. Eliminate language that prevents the state from engaging in electronic commerce or procuring state-of-the-art technology. For instance, sealed bid requirements eliminate the possibility of electronic submission of bids.
3. Develop less costly and burdensome alternatives to percentage preferences:
  - a. Remove percentage preference and state-use monopoly for corrections industries. Instead, allow purchase of corrections industry products and services without the bid process.
  - b. Remove percentage preference for sheltered workshops. Instead, allow purchase of sheltered workshop products without the bid process.
  - c. Revise the small business procurement program to meet constitutional requirements. Instead, as required by the courts, consider race- and gender-neutral alternatives to preferences and develop a “narrowly tailored” preference program to remedy past discrimination.
  - d. Eliminate percentage preferences for recycled materials. Instead, use the “best value” concept to ensure environmentally responsible specifications and purchases.
4. Revise the preference for American-made goods to comply with international trade agreements.
5. Eliminate the requirement of human rights certification for businesses outside Minnesota.
6. Raise statutory dollar levels for sealed-bid purchasing to at least the levels set for local units of government — or allow the commissioner of Administration to set dollar levels consistent with inflation.



# APPENDIX A.

## PILOT PROJECT EVALUATION

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The legislature authorized the Department of 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 handled by the inventory centers and business offices.

Mn/DOT management selected its interagency Materials Management Team, which includes Administration's director of the Materials Management Division, to be responsible for implementing the pilot project. 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 was of:

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 its class. This program will be modeled by other state agencies.

The team's mission was "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 to determine success. The team also developed purchasing pilot policies, which were endorsed and approved by the Materials Management Team and the commissioner of Transportation, and offered training on the new policies and procedures to inventory centers and business offices.

The pilot team created sub-teams to explore:

- professional/technical contract management,
- ethics (pilot integrity),

- building construction,
- commodity contracts,
- delegated purchase authority, and
- road equipment.

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

## **PURCHASING GUIDELINE DIFFERENCES**

Four key differences can be found between the purchasing pilot and current Administration policies:

1. Administration gives local purchase authority — the authority to make non-contract purchases — for purchase orders of up to \$5,000. Authority for local purchases up to \$15,000, the dollar level at which sealed bids are required, is given with additional training. The pilot project gives Mn/DOT purchasers unlimited local purchase authority.
2. The pilot project requires fewer bids than current Administration guidelines for purchases below the sealed-bid limit.
3. The pilot project has lower targeted-group and economically disadvantaged vendor preference percentages.
4. Contracts, when possible, have been rewritten to be non-exclusive for pilot project participants and to also encourage multi-vendor contracts.

A complete list of differences is shown in Table 1.



**TABLE 1. PURCHASING GUIDELINE DIFFERENCES**

PURCHASING POLICY GUIDELINES																										
ORIGINAL	CURRENT	PILOT PROJECT																								
1. Delegated purchase authority limited to \$1,500	1. Delegated purchase authority limited to \$5,000; \$15,000 with advanced training	1. No dollar limit on delegated purchase authority																								
2. Bids required: Less than \$500 — 1 \$500 - \$1,500 — 2 More than \$1,500 — 3	2. Bids required: Less than \$1,500 — 1 \$1,500 - 5,000 — 2 More than \$5,000 — 3	2. Bids required: Less than \$5,000 — 1 \$5,000 - 15,000 — 2 More than \$15,000 — 3																								
3. Administration determines method for all contract purchases and all purchases below the delegated authority level		3. Mn/DOT determines the method for all purchases																								
4. Purchases above local purchase authority must be processed by Administration		4. Purchases are processed by Administration at Mn/DOT's option																								
5. Administration determines purchasing and contracting procedures		5. Mn/DOT determines purchasing and contracting procedures																								
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-group (TG)/economically disadvantaged (ED) vendors: TG = 6% ED = 4%		9. Targeted-group (TG) /economically disadvantaged (ED) vendors: <table border="1"> <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
Commodity	TG	ED																								
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Building construction	TG	ED																								
Less than \$100,000	6	4																								
\$100,000 - 250,000	5	3																								
More than \$250,000	4	2																								
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 is 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 desired outcomes and performance measures that would allow for evaluation of the project in terms of Mn/DOT's objectives as well as those established by the enabling legislation. The Mn/DOT offices and districts that chose not to participate in the pilot project are serving as a control group. 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 — serving as evidence of the purchasing pilot project's impact. 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 specified the outcomes and measures that would determine the extent of the pilot project's success. The outcomes, which include all outcomes specified in the authorizing legislation, are:

- increased customer satisfaction,
- reduced staff time in purchasing,
- reduced time to receive goods and services,
- improved quality of goods and services,
- reduced cost of goods and services,
- increased flexibility of the purchasing process,
- increased participation by targeted, local, small, and economically disadvantaged vendors, and
- maintenance of the ethical integrity of the purchasing process.

The Management Analysis Division agreed to the selected outcomes and worked with Mn/DOT's Measurement and Evaluation Team, purchasing customers, and purchasers to develop the measurement tools. These tools are (1) a survey of purchasing system customers, (2) a tracking form on selected individual purchases, (3) reports and information from the state's computerized procurement system, (4) focus groups of pilot project participants, and (5) routine Mn/DOT audit reports.

Some data collection is still under way and some data collection tools, particularly the tracking form, yielded unreliable results and are undergoing revision. Therefore, data is not available for all measures but, where possible, the data and conclusions drawn from it are addressed here.

**MEASURE: INCREASED CUSTOMER SATISFACTION** Customer satisfaction was measured by a survey of Mn/DOT customers. In July 1997, a preliminary survey was conducted to identify any initial differences in survey results between the pilot and control groups. The approximately 400 Mn/DOT customers who received the survey were selected by distributing a quantity of surveys, weighted by their amount of purchasing, to Mn/DOT office managers and asking them to distribute the survey to the most frequent customers in their office. This is not an ideal method of survey distribution, but was deemed the best possible, given the lack of a central customer list.

In all but one question, pre-pilot differences were small and not statistically significant. In one question, relating to satisfaction with the cost of purchased goods, differences disappeared when purchases from the Twin Cities metropolitan area districts and offices were removed from the sample.

It was therefore concluded that, despite the lack of random sampling, a comparison between the two groups could be made and, as long as data was analyzed carefully to make the best comparisons, the comparison would provide evidence of the pilot project's impact.

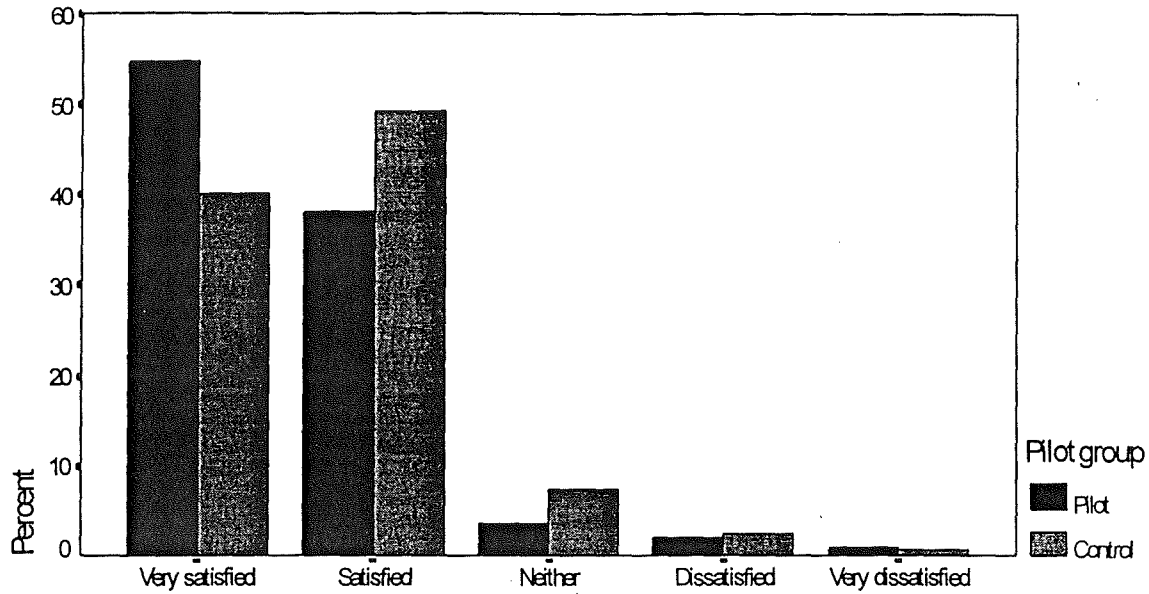
After the preliminary survey, a more rigorous survey of Mn/DOT customers was begun. A focus group of Mn/DOT customers pre-tested the survey and indicated that the best customer survey would ask customers about specific purchases they had made. In addition, because purchases off the state contract would not be affected by the pilot project, it was decided to survey only customers of non-contract purchases.

A weekly report of all purchases where payment had been made was regularly downloaded from the state's Infopack data warehouse, and a random sample of purchases, stratified by pilot and control groups and by dollar value, was selected. It became clear in April 1997 that not enough higher-dollar purchases were being selected, so the team doubled the number of selected purchases of more than \$1,500. It was determined that this was unlikely to have a serious impact on the validity of the data, although it could skew the results toward purchases made toward the end of the fiscal year. This purchase list was sent to Mn/DOT's Management Analysis team, who contacted the Mn/DOT inventory center that made the purchase and asked whether the purchase was off a state contract. If it was not, the customer was identified, contacted, and surveyed, with promises of anonymity.

Survey results were entered into a data base by Mn/DOT's word-processing unit and sorted and analyzed by the Department of Administration's Management Analysis Division. Survey results are contained in the following 10 charts. A Chi Square test of statistical significance was run to determine the statistical likelihood that the differences between the pilot and the control groups could have happened by chance, and the significance result is cited below each chart as the "p" value. P values lower than .05, a one-in-20 chance, are usually considered to be statistically significant.

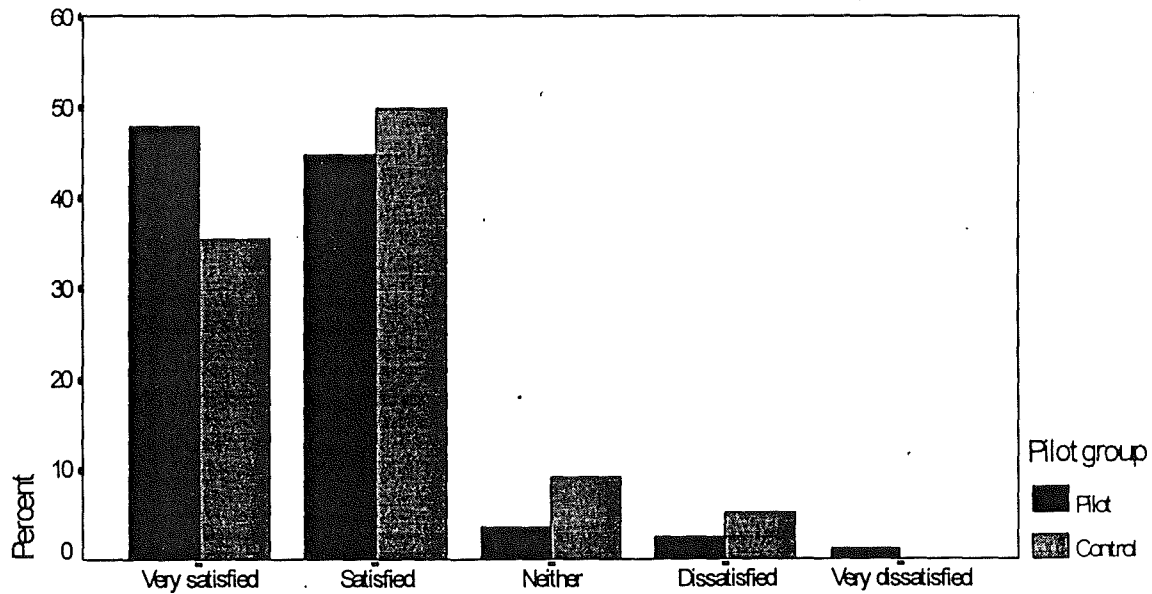
# SATISFACTION WITH TIME TO RECEIVE PRODUCTS

For purchases of less than \$1,500



Pilot n=272, Control n=246, p=.01

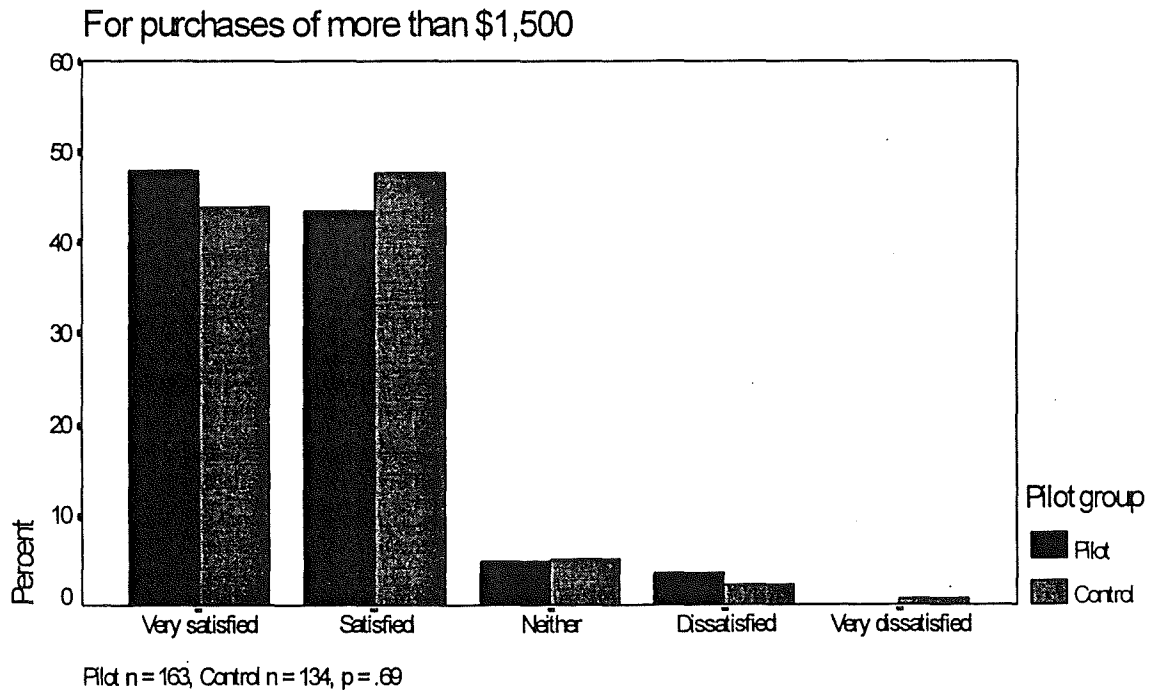
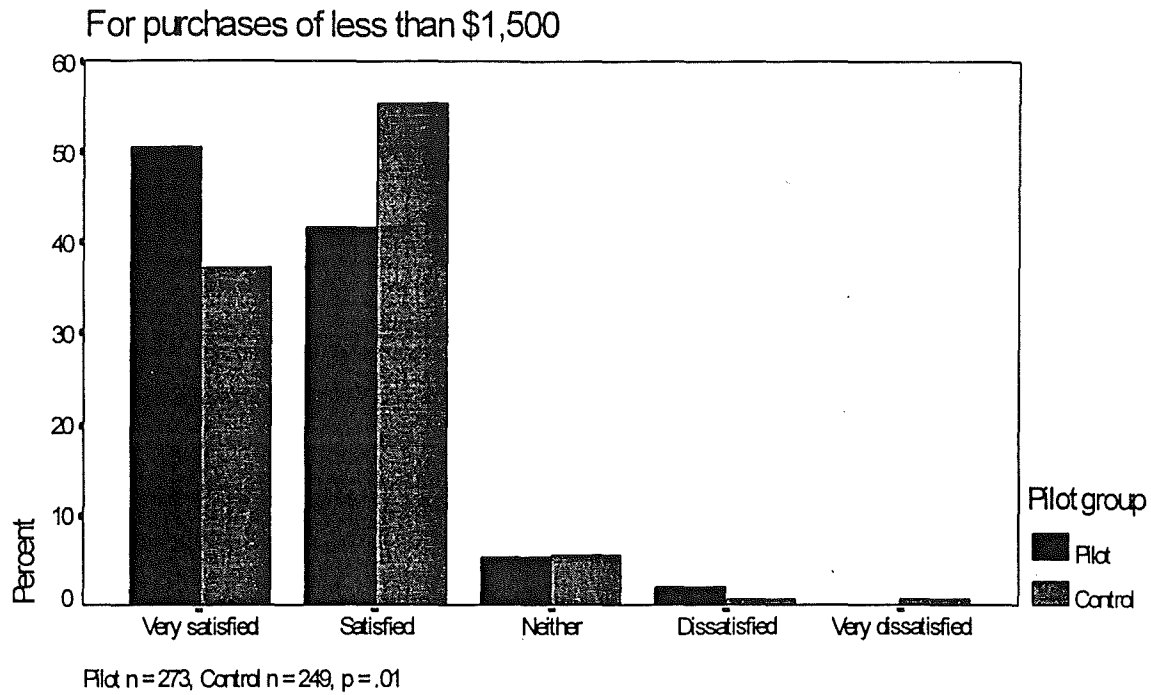
For purchases of more than \$1,500



Pilot n=163, Control n=132, p=.05

**SUMMARY** For both price groups, the pilot group shows greater satisfaction with the time it takes to receive purchases and the difference is statistically significant, with more customers classifying themselves as “very satisfied.”

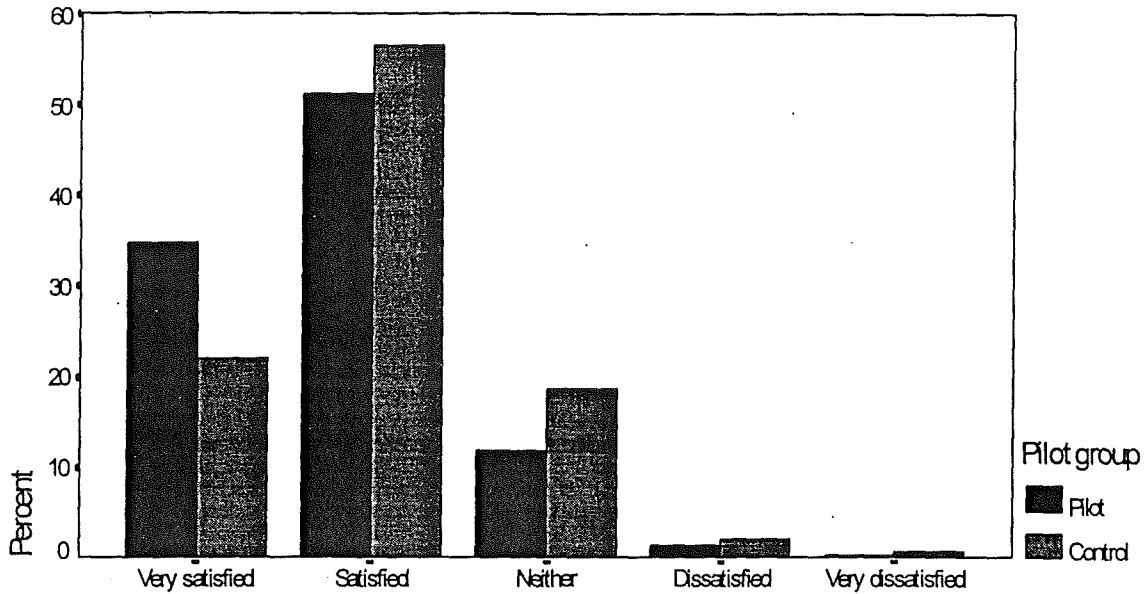
## SATISFACTION WITH EXTENT PRODUCT MET SPECIFICATIONS



**SUMMARY** For lower dollar purchases, the pilot project shows a statistically significant positive impact on the purchasers' degree of satisfaction with the extent to which the product met their specifications. The impact of the pilot project on higher dollar purchases is slightly positive, but is not statistically significant.

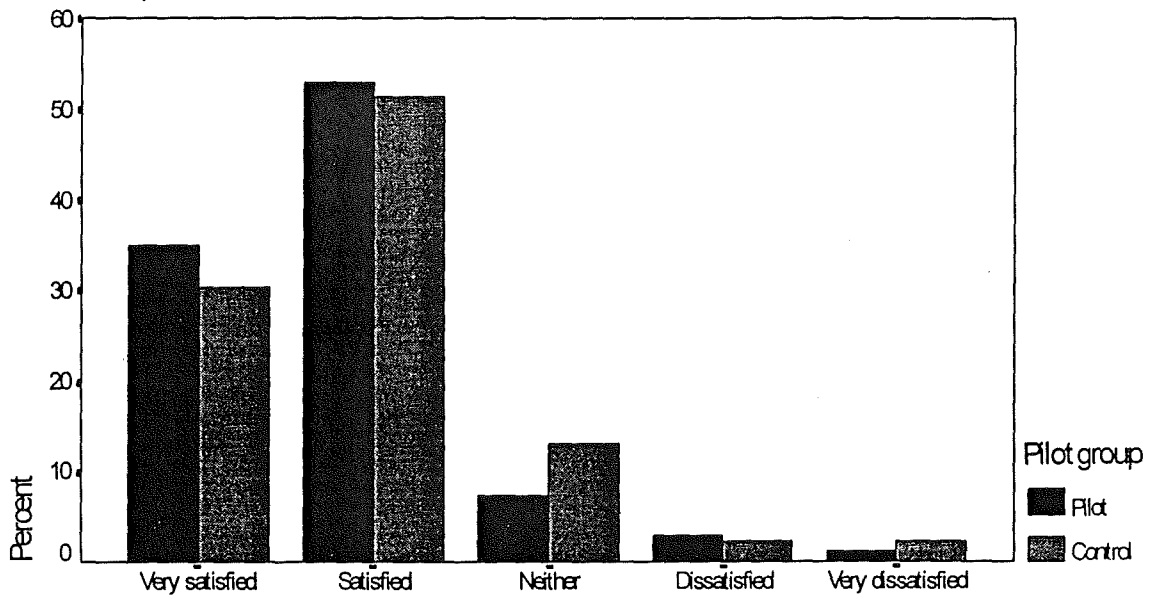
# SATISFACTION WITH COST

For purchases of less than \$1,500



Pilot n=261, Control n=246, p=.01

For purchases of more than \$1,500



Pilot n=162, Control n=128, p=.46

**SUMMARY** For lower dollar purchases, the pilot project shows a statistically significant positive impact on the purchasers' satisfaction with the products' cost. The impact of the pilot project on higher dollar purchases is slightly positive, but is not statistically significant.

**TABLE 2. BUILDING CONSTRUCTION THROUGHPUT TIMES**

	FY 97 (N = 58)	FY 96 (N = 45)	DIFFERENCE
Let <sup>1</sup> to award <sup>2</sup>	11 days	15 days	- 4 days
Award to notice <sup>3</sup>	21 days	45 days	- 24 days
Let to notice	32 days	60 days	- 28 days

1. Let = Date bids are opened; start of the contracting process
2. Award = Date Mn/DOT awards the contract
3. Notice = Date "Notice to Proceed" to contractor is sent out; end of contracting process

**SUMMARY FOR ALL SURVEYS** Although there is a trend toward greater customer satisfaction in the pilot group, it is worth noting that the greatest satisfaction differences are for purchases of less than \$1,500, where the pilot project has the fewest purchasing process changes. It should also be noted that, in both groups, very little dissatisfaction exists and, where there are differences, they are usually between the "satisfied" and "very satisfied" groups.

In Year 2 of the pilot project, customer satisfaction surveys will focus on purchasing exceeding \$5,000, because an insufficient number of surveys for this price group were received in Year 1, and it is an area where purchasers say the greatest positive impact is occurring.

**MEASURE: REDUCED TIME TO RECEIVE GOODS AND SERVICES** Data was collected on building construction contract throughput times in FY 96, when contracting was done in Administration, and compared with FY 97 throughput times. Data from Mn/DOT was collected by Mn/DOT building construction employees' tracking contract event dates on a computer spreadsheet. Data from Administration was collected by noting contract event dates in all Mn/DOT construction contract files for FY 96 and. The data was then averaged and compared. Results are shown in Table 2.

In summary, it took an average 60 days to complete the building construction contracting process in 1996, compared with an average 32 days in 1997.

Differences between FYs 96 and 97 make this comparison less than perfect. In FY 96, the move to a new accounting and personnel system (MAPS) had the potential to cause delays in Administration's contracting process, and Administration's Materials Management Division experienced a temporary relocation for remodeling during winter 1996, which also could have had the potential to cause delays in the contracting process. To examine whether these events caused distortion in the data, throughput times for different subsets of dates were also analyzed. It was discovered that, despite these two potentially disrupt-

tive events, throughput times remained quite consistent throughout the fiscal year, varying from 62 days in the first quarter of FY 96, when the most problems were experienced with MAPS, to 61 days in the second quarter, 42 days in the third quarter (during the relocation, with only five contracts), and 63 days in the fourth quarter. It was concluded that although the disruptions may have had a slight impact, they do not account for the observed throughput time differences between the years.

Throughput data was also collected on the four Mn/DOT contracts processed by Administration in FY 97, to compare with the rest of the Mn/DOT projects processed internally in Mn/DOT. The average throughput time for the four contracts in FY 97 was 40 days. This is still longer than Mn/DOT's throughput time, but shorter than the throughput time in FY 96. However, four is a very small

sample size, the contracts were not randomly selected, and it is quite possible that the reduced workload on MMD building construction caused by the purchasing pilot is responsible for part of the throughput time reduction. Before collecting the data for both years, it was decided that the year-to-year comparison is superior, because the flaws in that comparison can be handled by dividing the data into subsets.

**CONCLUSIONS** Although a year-to-year comparison is not perfect, due to possible annual variations in contracting types, the large difference between the two years strongly indicates that the pilot project has led to completing the building construction contracting process in almost half the time. An audit of contracting processes in both agencies is recommended to ensure that this time savings is not coming at the expense of increased legal liability.

**MEASURE: INCREASED FLEXIBILITY OF THE PURCHASING PROCESS** The results of this measure were to be determined by focus groups of Mn/DOT purchasing employees. According to these employees, the purchasing process is now much more flexible. They cited as examples the ability to make their own decisions, lower bid requirements, and fewer purchasing regulations.

**MEASURE: INCREASED PARTICIPATION BY TARGETED-GROUP, LOCAL, SMALL, AND ECONOMICALLY DISADVANTAGED VENDORS** Data for this measure was collected from the GBV16B report from the state purchasing system. This report categorizes purchases and purchasing dollars from all purchases on the state system into four vendor types: economically disadvantaged, large, small, and targeted-group, as defined by statute. In order to eliminate the possibility that differences were due to geography (such as more targeted-group vendors located in pilot districts), FY 97 data was compared with FY 96 data as well. Also to control for the effects of geography, the Twin Cities metropolitan area divisions and offices were removed from the sample for the analysis. Results are shown in Table 3.

**TABLE 3. VENDOR PARTICIPATION AS A PERCENT OF TOTAL**

VENDOR TYPE	FISCAL YEAR	
	96	97
<b>Targeted-group</b>		
Pilot	1.03%	1.76%
Control	1.47	1.08
<b>Economically disadvantaged</b>		
Pilot	.44	.65
Control	.35	.29
<b>Small</b>		
Pilot	9.7	11.1
Control	11.4	9.1



In summary, for the non-metropolitan area districts, 1997 targeted-group, economically disadvantaged, and small vendor participation grew more in the pilot group than it did in the control group. In 1996, the control group had greater participation of small and targeted-group vendors than the pilot group and slightly less participation in economically disadvantaged vendors. In 1997, the pilot group had greater participation in all areas, and its lead in economically disadvantaged vendor participation increased.

**CONCLUSIONS** The results here disagree with anecdotal data from Mn/DOT purchasers, who frequently cited relaxed targeted-group/economically disadvantaged vendor preferences as one element they most liked about the pilot project. Because it seems unlikely that targeted-group/ economically disadvantaged vendor participation would increase *because of* the pilot project, it is possible that these increases occurred *despite* the pilot project. Any difference in purchasing behavior was likely overwhelmed by normal annual purchasing variation. At the very least, however, it can be said that participation in the pilot project caused no measurable decrease in the targeted-group/economically disadvantaged vendor participation, when measured as a percentage of total dollars.

The purchasing report does not contain information on local vendors; but anecdotal information from purchasers, data received on the tracking forms, and the likely correlation between small vendors and local vendors, however, indicate that the percentage of purchasing dollars going to local vendors has increased. Mn/DOT purchasers frequently stated that they were making more purchases from their local area.

**MEASURE: MAINTENANCE OF THE ETHICAL INTEGRITY OF THE PURCHASING PROCESS** Mn/DOT covered purchasing ethics in its staff training for the pilot project and has had several discussions with purchasing staff about purchasing ethics. Also, routine purchasing audits by Mn/DOT have revealed no ethical violations such as conflict of interest or kickbacks. In the next few months, Mn/DOT's audit section will audit the contracting process and the results will be compared with results of the Legislative Auditor's periodic review of the Materials Management Division.

It should be noted that no concerns or complaints have been heard that indicate any of the problems the authorizing legislation pointed to, such as kickbacks or favoritism, but an audit would increase the likelihood of detecting such abuses and would also address the greater, although unconfirmed, possibility of increased legal liability.

**OTHER POTENTIAL COSTS OR BENEFITS** Mn/DOT predicts that the pilot project purchasing rules would lead to lower inventory levels and therefore lower purchasing costs, if implemented statewide. Given the ability to purchase more products locally under the pilot rules and greater freedom to choose vendors, this is certainly possible, but is likely to be reflected only in a very long-term evaluation.

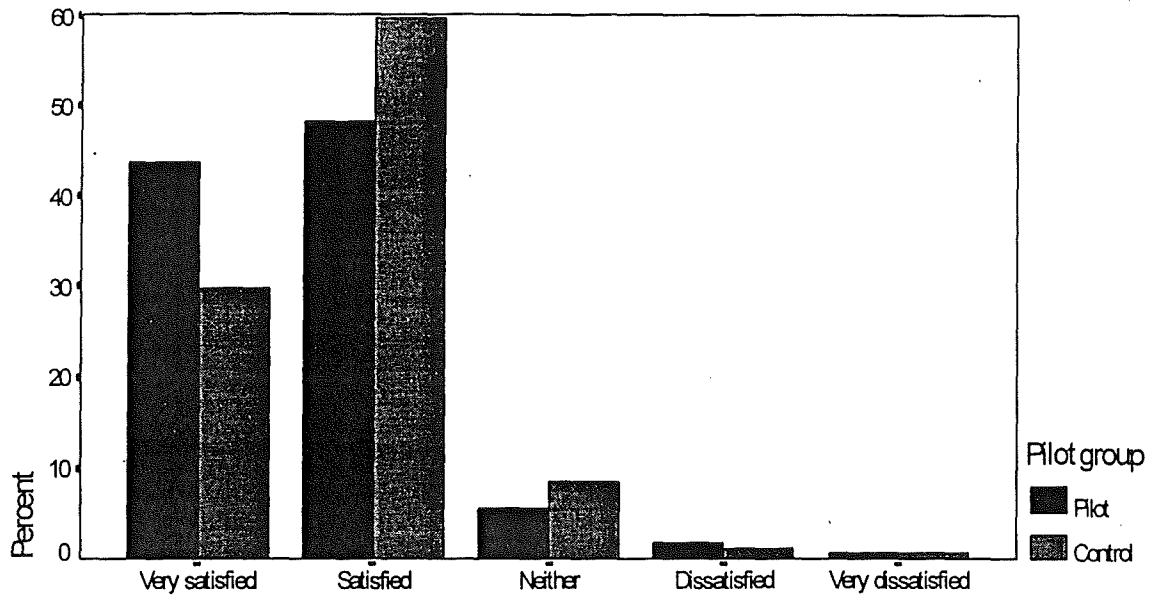
## LESSONS LEARNED

Mn/DOT reported several lessons learned from the pilot project that are most applicable to other state agencies:

- Define the needs of the purchasing system in conjunction with internal customers and the Department of Administration.
- Establish an agency management team composed of internal purchasers, customers, and representatives from Administration.
- Establish a system of checks and balances to ensure that unauthorized purchases are minimized.
- Create purchaser training, so that purchasers are aware of their purchase authority and other elements of purchases, such as advertising for bids.
- Implement ongoing quality initiatives.
- Use periodic performance measures to determine whether results are meeting purchasing objectives, and make alterations accordingly.

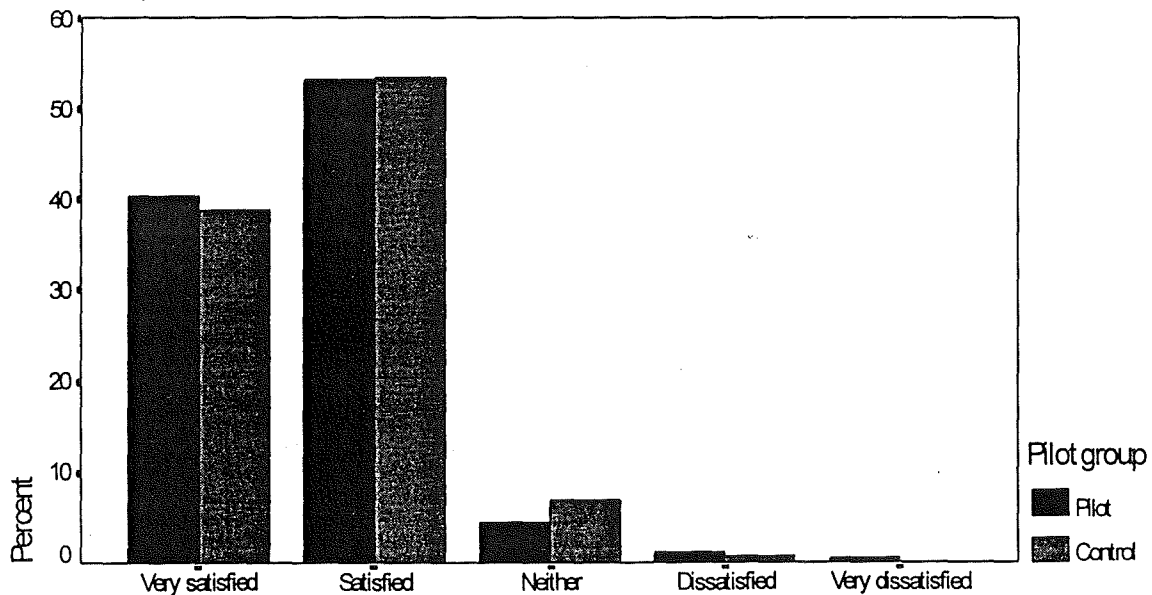
# SATISFACTION WITH PRODUCT PERFORMANCE

For purchases of less than \$1,500



Pilot n=268, Control n=248, p=.02

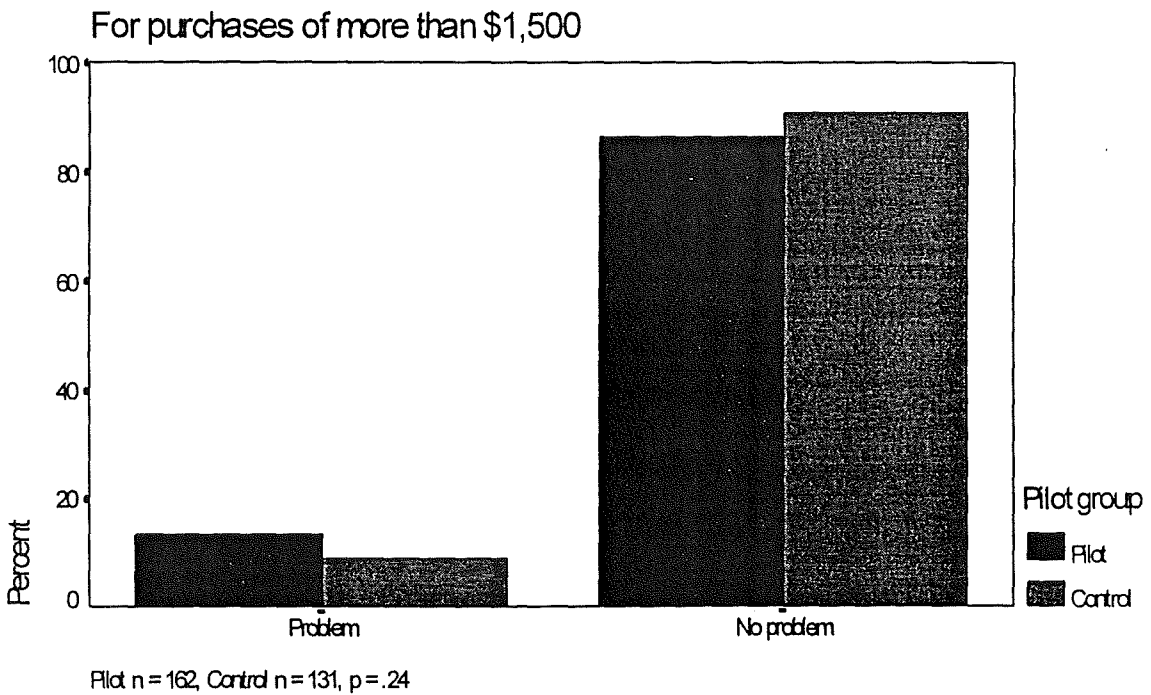
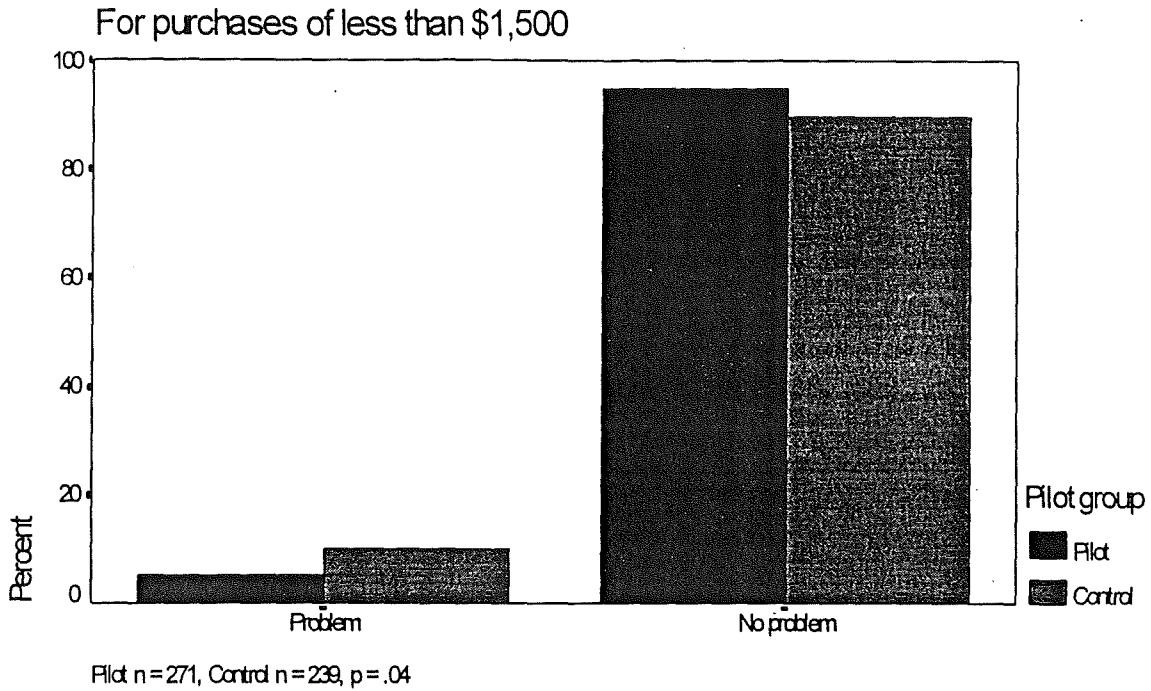
For purchases of more than \$1,500



Pilot n=156, Control n=131, p=.77

**SUMMARY** For lower dollar purchases, there is a statistically significant positive impact on the customers' satisfaction with their purchases' performance. The impact of the pilot project on higher dollar purchases is mixed, with slightly greater satisfaction and dissatisfaction within the pilot group, but this difference is not statistically significant.

# PURCHASES WITH REPORTED PROBLEMS



**SUMMARY** The pilot group shows a statistically significant percentage of fewer problems reported for lower dollar purchases and the percentage of greater problems reported for higher dollar purchases is not statistically significant. According to comments written on the surveys, most problems were due to unforeseen delays. An additional question was asked about customer satisfaction with resolving problems, but the sample size of problem purchases was too small to draw conclusions, and the data is omitted here.

## OBSTACLES

The pilot test has encountered a few difficulties, including the tracking form's inability to collect good data, other data collection issues, and time delays.

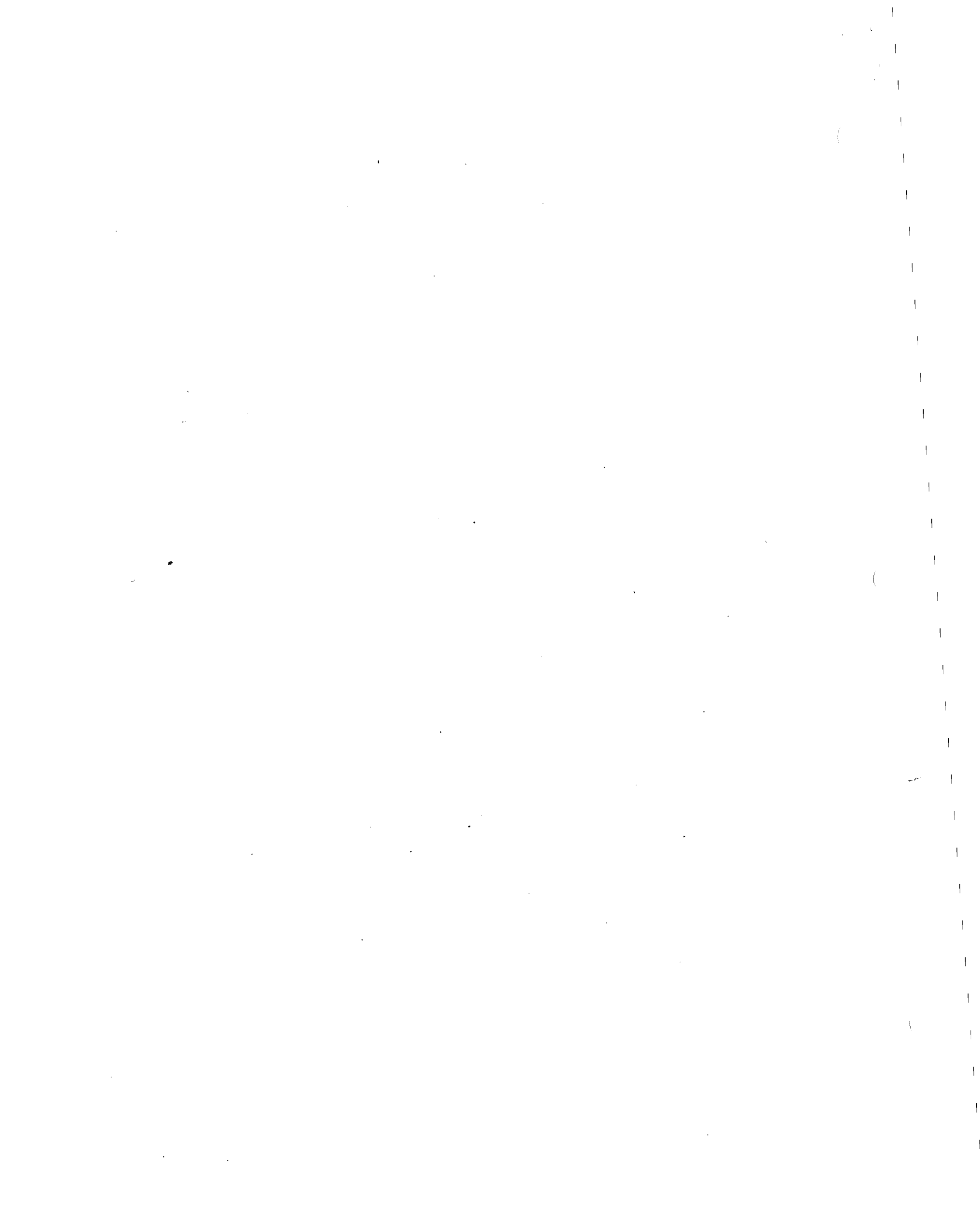
**TRACKING FORM** Although the customer satisfaction surveys, purchasing system data, and focus groups have worked well and returned data that are likely to be valid, the tracking form has failed to collect good data in most areas. The form's instructions were frequently misunderstood, the sampling method confused many people, and the return rate was highly variable — excellent in some areas, low in others. To address this problem, the methodology was revised to avoid sampling, to ask for less data (some of which is now available from the purchasing system), to track a more select number of purchases, and to ask Mn/DOT management to more strongly encourage staff to complete the form.

**OTHER DATA COLLECTION ISSUES** The implementation of Administration's purchasing reform initiative brings the Mn/DOT pilot and control groups much closer together, making any differences in impact harder to discern.

**TIME DELAYS** The 1996 report mentioned time delays as a potential obstacle. This has largely been removed by the one-year extension.

## NEXT STEPS

The next steps of the pilot project are to (1) continue to collect performance data throughout the life of the pilot project; (2) focus attention on contract exclusivity; (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 any additional recommendations to the legislature regarding state purchasing reform; and (6) report again to the legislature in October 1998.



## APPENDIX B.

### PROCUREMENT REFORM STEERING COMMITTEE

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Beginning in July 1996, a steering committee was assembled to recommend statutory and regulatory improvements in state purchasing. Participants were selected by their commissioners in response to an invitation from the commissioner of Administration. Agencies represented included:

Administration	Natural Resources
Agriculture	Office of Technology
Corrections	Pollution Control
Economic Security	Public Safety
Finance	Public Service
Health	Transportation
Human Services	Medtronic, Inc. (representing
Minnesota Planning	private industry)

Administration's Management Analysis Division facilitated the steering committee's work. The first phase of the work effort involved interviewing or surveying 138 stakeholders in the procurement process to identify what was working well and what needed improvement. Results of this data collection, as well as information on other jurisdictions' reform of government purchasing, were brought to the steering committee and discussed.

Ultimately, the committee adopted a statement of "purpose and philosophy" for procurement reform, as well as specific recommendations for statutory and policy changes.

The vision and recommendations of the steering committee are fully consistent with the best current thinking regarding efficient government purchasing. Specifically, the committee's work closely parallels recommendations from the following groups:

- Council of State Governments
- National Association of State Information Resource Executives
- National Association of State Purchasing Officials
- National Institute of Governmental Purchasing

Recognizing its commitment to continuous improvement in public purchasing, the National Institute of Governmental Purchasing recently honored its Minnesota chapter as the national Chapter of the Year for mid-sized chapters.

## MULTI-AGENCY VISION OF REFORM

The steering committee's statement of purpose and philosophy provides a framework for responsible reform:

### PURPOSE AND PHILOSOPHY

1. We, the state procurement reform steering committee, endorse comprehensive statutory and policy changes to simplify, streamline, clarify, and modernize state procurement law. We view these changes as essential for cost-efficient functioning and the continuous improvement of government.
2. In 1995, the legislature determined that "the primary purpose of the laws governing state contracting is to ensure that state agencies obtain high quality goods and services at the least cost and in the most efficient and effective manner." We endorse that philosophy, but — consistent with the recommendations of the National Association of State Purchasing Officials and National Association of State Information Resource Executives — substitute the phrase "best value" for "least cost." We believe this change is true to the spirit of the legislative language while recognizing the complexity of the marketplace and the need to assess quality, reliability, environmental considerations, life-cycle costs, and other factors to ensure the best investment of state dollars.
3. Values we support within the state's procurement laws and practices include fair and equitable treatment of all individuals and businesses, as well as insistence on the highest ethical and performance standards for all agents and vendors of the state. We recognize that state procurement laws have tried to address various social concerns. We believe that the multiple disparate objectives layered on top of the fundamental mission have added a cost and complexity to state purchasing. The changes we propose should increase public and state employee confidence in government purchasing.
4. We recognize the need for a coordinating purchasing authority (Materials Management Division, operating on behalf of the commissioner of Administration), whose responsibilities in addition to direct purchasing include policy setting and oversight of delegated purchasing activities.
5. We believe in the facilitation of flexibility for agencies because agencies have different needs. This flexibility should include expanded delegation of authority to qualified agencies. Where appropriate, the coordinating authority must be available to provide full procurement services for those agencies without the staff or the means to take on responsibility for purchasing.
6. The philosophy of the coordinating purchasing authority should be to put the majority of its time and resources into the larger, more complex acquisitions and its central management responsibilities.
7. Changing technologies are rapidly evolving the way the world does business. State laws and policies must be amended to ensure that state government takes advantage of technological advances. Specifi-



cally, we must be able to (a) provide the infrastructure for and accommodate the demands of electronic commerce, (b) obtain rapidly changing technology more quickly, (c) leverage the state's position as a large purchaser, and (d) protect state interests while pursuing new types of business relationships with the private sector.

8. We believe that these changes are consistent with reform efforts in other states and at the federal level, as well as with new directions being set by the legislature. We believe that procurement reform is imperative for both government and business interests in the state and respectfully petition the executive and legislative branches to adopt our reform agenda.