

State Procurement Vendor Thresholds and Controlling Board Requests



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**Fresh
Perspective**

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EXECUTIVE SUMMARY

Should the State of Ohio's vendor thresholds be changed? This paper, "Yea or Nay to \$50K", examines the state of Ohio's vendor thresholds and Controlling Board requests as well as the procurement practices and thresholds of other state agencies throughout the country.

The State of Ohio has been innovative and forward thinking in the area of procurement by utilizing technology to lower costs and increase government transparency. However, has the concentration on technology and transparency caused us to overlook vendor thresholds and the resources spent on the amount of Controlling Board requests that may hinder the advancement in our continuous improvement initiative? The State of Ohio's vendor threshold of \$50K has been in place for over 23 years. Does this amount have the same purchasing power today? Has not adjusting the threshold resulted in more Controlling Board meetings over time? Should the threshold be adjusted for inflation or does the current threshold combined with other procurement changes make more sense? These are just a few questions to keep in mind as we ask the ultimate question 'Should the State of Ohio's vendor threshold be adjusted?'

State agencies have the authority to purchase directly from a vendor up to the \$50K vendor threshold (excluding state contract). Once the threshold has been reached (or will be reached with the pending purchase), the agency must get Controlling Board approval prior to purchasing from that vendor.

The amount of time it takes for an agency to complete a Controlling Board request varies from the type of request i.e. operating, capital, or state purchasing. Controlling Board capital requests will take longer to complete than operating requests due to the nature of the request i.e. dollar amount, multiple vendors, length of project, etc. From 2008-2018 there were an average of 1,382 Controlling Board operating requests each year for an average of 53 operating requests at each Controlling Board Meeting.

Over time multiple workgroups have been formed to review Ohio's procurement practices and provide recommendations. The recommendations from the studies have ranged from, the direct purchasing threshold limit is adequate and should be maintained, to increasing the direct purchasing threshold and other procurement limits for agencies with a certified procurement officer/buyer.

Ohio's vendor threshold has remained the same for the last 23 years. Taking inflation into account, retail goods or services costing \$50K in 1995 now cost \$82.7K. Conversely, \$50K in 1995 has the buying power of approximately \$30K today. Adjusting for inflation, the State of Ohio's purchasing power has clearly decreased over the last 23 years.

INTRODUCTION

This research paper focuses on the State of Ohio's procurement vendor thresholds and Controlling Board Requests and asks the question: Should the vendor threshold amount be adjusted?

The focus of procurement is cost savings, risk management and the speed of response. Cost savings and risk management have been around for some time however the speed of response is a relatively new concept. The speed of response is how long it takes for decisions to be converted into delivery. In today's market time is money. The State of Ohio strives to promote open and free competition to acquire goods and services at the lowest cost (cost savings). Statutes, rules and policies have been created to ensure accountability and transparency in utilizing taxpayer funding (risk management). But what about speed of response? Often times, streamlining and technology are the go-to strategies used in an attempt to bridge the ever-widening gap between demands and resources. State agencies often struggle to keep up with changing demands on services and diminishing resources. In today's market, agencies need the flexibility to adjust to meet the needs of Ohio's citizens (speed of response). One approach to increasing the speed of response may be to reexamine the State of Ohio's vendor thresholds and the amount of Controlling Board requests.

The State of Ohio is forward thinking in the area of procurement with movement toward harnessing technology and innovation i.e. moving from CAS to OAKS, utilizing purchasing cards (Pcards), Electronic Data Interchange (EDI), OhioCheckbook.com, on-line access to contracts, audit and monitoring reports, procurement training, etc. However, does the focus on technology and innovation as the answer to a better process cause us to overlook laws and policies put in place decades ago that could potentially slow the advancement in Ohio's ultimate goal of overall continuous improvement? This paper will provide the history of Ohio's vendor threshold amounts, history of Controlling Board requests and meetings, Consumer Price Index (CPI) information and a review of other states procurement thresholds compared to Ohio's procurement thresholds to provide the needed information for an evaluation of the vendor threshold.

Background

The State of Ohio's Controlling Board was created in 1917. The Board was established to provide legislative oversight to ensure appropriated funds were used in accordance with legislative intent. The Controlling Board is made up of seven members: the President – Office of Budget and Management (OBM) Director or his/her designee; the Chairs of Finance Committees from the Senate and the House; Two members of the Senate appointed by the President, one from the majority and one from the minority; Two members of the House appointed by the Speaker, one from the majority and one from the minority. Since its' inception, the duties of the Controlling Board have remained fairly unchanged. In 1973, SB 174 created the Department of Administrative Services (DAS) and OBM. DAS was formed to oversee state printing and purchasing. SB 174 transferred many purchasing responsibilities to DAS that were previously handled by multiple agencies. The direct purchasing threshold at this time was limited to \$1,000. In 1975, under SB 358, the Controlling Board was established in permanent law and given the authority to waive competitive bidding for purchases in an emergency or for certain economic reasons if the total cost of the purchase from supplier was \$10,000 or more.

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The Controlling Board was also given the authority to waive competitive bidding requirements for purchases of goods costing \$2,000 or more.

In 1987, HB 88 eliminated numerous requirements to awarding a public contract and prescribed state agencies to award contracts to the lowest responsive and responsible vendor. In 1993, HB 152 raised direct purchase authority of state agencies to make purchases of services costing \$25,000 or less (from \$10,000), and purchases of supplies costing \$10,000 (from \$5,000) or less directly. Raised the Controlling Board threshold from \$10,000 to \$40,000. In 1995, SB 99 raised the direct purchase threshold for services from \$25,000 to \$50,000 and the direct purchase threshold for supplies from \$10,000 to \$25,000. The SB also included a provision that direct purchase thresholds shall be increased or decreased in accordance with the change in the consumer price index (CPI).

In 2003, HB 95 contained a provision that was ultimately vetoed that would have allowed state agencies to purchase services that cost more than \$50,000 or supplies that cost more than \$25,000 if they solicited at least three bids and made the purchase directly from the lowest bidder instead of from or through DAS.

In 2008, HB 562 modified the state procurement laws. The bill permitted state agencies to make purchases of services and supplies over \$25,000 but under \$50,000 if the purchases were made by a certified agency employee. It removed the requirement that purchasing thresholds for supplies and services be adjusted with the CPI and instituted a process through which the Directors of DAS and OBM would review the thresholds and make recommendations regarding adjustments to the General Assembly. The certified training program was never implemented statewide.

In 2015, HB 64 removed the requirement that DAS develop a procurement training program and removed the provision that capped an agency's direct purchasing authority at \$25,000. Consequently the direct purchasing authority was restored to \$50,000 for the purchase of services and the purchase threshold for supplies also became \$50,000.

Strategies

The following are strategies and methods the team used to analyze vendor thresholds.

Data Collection

- The Controlling Board website,
- The Controlling Board Manual,
- Ohio Revised Code (ORC),
- State of Ohio Purchasing Manual, and
- The Ohio Administrative Knowledge System (OAKS) regarding Controlling Board – Operating Requests
- U.S. Department of Labor – Bureau of Labor Statistics
- U.S. Department of Commerce – Bureau of Economic Analysis

The team also utilized information from the National Association of State Procurement Officers (NASPO) 2018 survey results regarding state procurement practices. In addition, Ohio and five additional states were chosen to examine their individual surveys and procurement practices they are California, Georgia, North Carolina, Oklahoma and New Hampshire.

Subject Matter Experts

The team reached out to several subject matter experts:

- Kelly Sanders, Deputy Director/Chief Procurement Officer with the Ohio Department of Administrative Services
- Andrew Cochran, Project Manager with the Ohio Department of Administrative Services
- Christine Morrison, Controlling Board President
- Teresa Goodridge, Controlling Board Secretary

Ms. Sanders and Mr. Cochran provided the team with information on the history of vendor thresholds as well as previous work groups that have studied ways to improve State of Ohio procurement practices.

Additionally, Ms. Morrison and Ms. Goodridge provided the team with information regarding the Controlling Board process.

FINDINGS

Analysis

Controlling Board Requests

Controlling Board requests submitted by state agencies generally relate to the main operating budget, the capital budget, or state purchasing. The amount of time it takes to complete a Controlling Board Request varies depending on the type of request. In theory, it should take agencies significantly less time to complete a waiver of competitive selection versus a request to release capital appropriations for a construction-related project. Construction related projects typically involve large dollar amounts, multiple vendors, and often last longer than two years.

Controlling Board operating requests primarily involve instances in which agencies are seeking a waiver of competitive selection. To obtain Controlling Board approval, state agencies must submit an on-line request for Release and Permit from the Ohio Department of Administrative Services (DAS). (All relative information must accompany the request otherwise it will be returned to the agency.) The minimum turnaround time for DAS to issue a Release and Permit decision is ten business days. If DAS finds it is not possible or advantageous to make the purchase and the agency has reached the direct purchase vendor threshold amount then the agency must obtain Controlling Board approval to make any further purchases.

If an agency is requesting a waiver of competitive selection and the request is not accompanied by a Release and Permit from DAS, the request will not be placed on the Controlling Board agenda. The Release and Permit is required by the Controlling Board in order to be placed on the meeting agenda. The Controlling Board is only required to meet once a month, however, they generally meet every other Monday. Agencies preferring a specific date on the Controlling Board's calendar must complete the request at least twenty-one days prior to the meeting date. The process for the Controlling Board Request review includes the Office of Budget and Management (OBM) review, request revisions (if necessary), agenda publication/public inspection, and Legislative Service Commission (LSC) staff review.

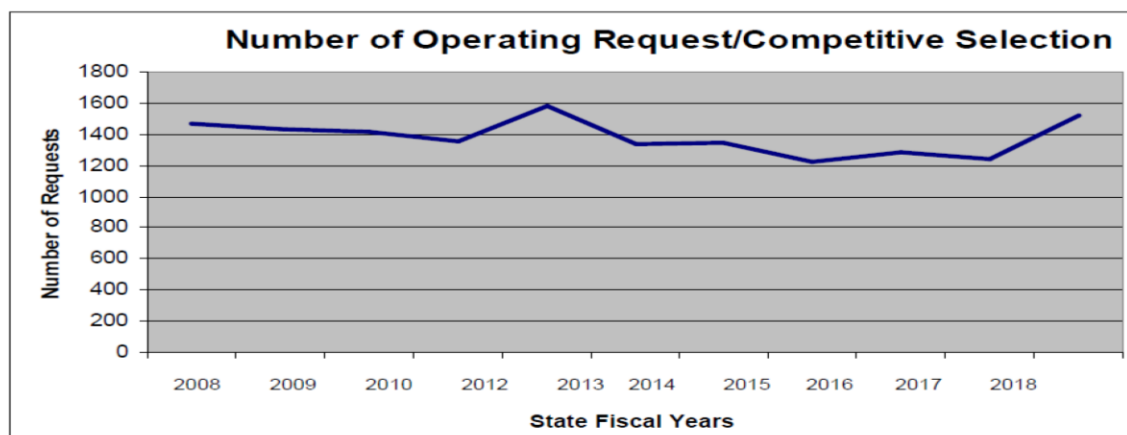
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Controlling Board Request Review Timeline

Days Prior to the CB Meeting	Day of the Week	Comments
21	Tuesday	E-Controlling Board requests due at 9 a.m.; OBM Budget Analyst review begins
13	Wednesday	Revision Deadline to OBM at 12 noon
8	Monday	Meeting agenda is published and LSC and Legislative staff review begins
1	Monday	Post holds by 9 a.m. Day of Controlling Board Meeting

Each agency requesting Controlling Board approval must send a representative(s) to attend the meeting. While conducting research for this paper we noted a recurring theme that not all representatives are located in Columbus and a significant portion of their day could be spent dedicated to the Controlling Board meeting. At the beginning of the meeting most requests are approved by the Controlling Board with a “blanket” approval. If your agency’s request is approved at this time, the agency representative(s) may leave. However, for those requests that are “held”, the agency representative(s) must stay and respond to additional questions from the Controlling Board members. Holding a request does not imply the member or member(s) will vote against the item for which a majority vote is needed to pass. If it looks like a request will be denied, the Controlling Board will give the requesting agency the opportunity to defer or withdraw the request. Controlling Board Secretary Teresa Goodridge, explained, “If a request is denied, the agency cannot come back for that particular project.”

As stated above the Controlling Board requests generally relate to the main operating budget and are primarily waivers of competitive selection. The following data is filtered by Request Type – “Operating Request” and Authorization Type – “Competitive Selection” for state fiscal years 2008-2018.



From 2008-2018 there were an average of 1,382 operating requests each year which equates to an average of 53 operating requests at each Controlling Board Meeting. The highest number of operating requests occurred in SFY12 with 1,578 and the lowest number of operating requests occurred in SFY15 with 1,227. The median number of operating requests were in SFY11 with 1,355. SFY18 saw the second highest number of operating requests for the year with 1,519.

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The analysis shows the number of Controlling Board – Operating Requests have been trending down with the exception of SFY12 and SFY18. The spike in SFY18 can likely be attributed to the ability to attach a vendor ID in OAKS FIN for each P-Card transaction. Attaching a vendor ID to Pcard transactions enables agencies to accurately track vendor purchases and calculate if future purchases will exceed the vendor threshold. Prior to this, agencies were not able to enter a vendor ID in OAKS FIN and were tasked with manually tracking the information.

The following table illustrates the top twelve state agencies which had the highest number of Controlling Board requests by state fiscal year from 2014 through 2018. The following agencies accounted for 83.40% of all requests:

Controlling Board – Operating Request/Competitive Selection by Agency

Agency	SFY 2014	SFY 2015	SFY 2016	SFY 2017	SFY 2018	Total	Annual Avg.	Percent to Total
Transportation	399	162	367	234	458	3,259	324	24.47%
Attorney General's Office	187	193	180	189	194	2,449	189	14.24%
Rehabilitation and Correction	173	189	178	165	140	1,824	169	12.76%
Dept. of Developmental Disabilities	65	79	66	98	100	648	82	6.16%
Dept. of Mental Health & Addiction Services	82	95	73	71	77	1,023	80	6.01%
Job and Family Services	61	62	36	45	42	654	49	3.72%
Health	40	55	37	40	61	438	47	3.52%
Natural Resources	20	33	62	51	19	272	37	2.79%
Administrative Services	49	49	19	20	38	1,215	35	2.64%
Department of Public Safety	39	54	17	26	33	329	34	2.55%
Youth Services	48	42	31	32	8	508	32.2	2.43%
Medicaid	14	23	26	37	38	138	27.6	2.08%

Work Group Summaries – Ohio Procurement

Over time multiple workgroups have been formed to review Ohio's procurement practices and provide recommendations. We found three studies worth noting.

- The first study "Management Improvement Commission" was conducted in 2000. This study evaluated the processes, procedures, and laws associated with the acquisition of goods or services by any public state entity. Their findings included a survey which revealed that only 27 percent of respondents found the thresholds inadequate for their purchasing objectives. They concluded that the direct purchasing thresholds should be maintained at their current dollar levels. In addition, the group recommended increased use of electronic procurement and leveraging of the State's buying power by utilizing mandatory agency-wide contracts.
- The second study "Advantage Ohio Report" was published in 2008. This group met to review and make recommendations on reforming Ohio's procurement of goods and services. They recommended redefining "competitive selection" and the creation of a

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central procurement office headed by a Chief Procurement Officer to bring better consistency and efficiency to the State's procurement practices. (Vendor thresholds were not addressed.)

- The last study "Procurement Open Forum and Workgroups" was conducted in 2014. The objective of this study was to identify all procurement-related thresholds and highlight those that were problematic and/or needed changed. The workgroup recommended direct purchase limits and Controlling Board approval be increased to \$100K. The written contract threshold be raised from \$500 and the Pcard transaction limits raised from \$2,500. This workgroup also recommended establishing a certified agency buyers program through DAS. The program would include such things as a procurement support center including a hotline, web portal, written guidance, an automated workflow, toolbox, etc. Any agency not participating in the certified buyers program would have their direct purchasing authority lowered to \$25K. Lastly, this study endorsed adjusting the direct purchasing and Controlling Board thresholds biannually utilizing the Consumer Price Index. The change in threshold amounts would be overseen and agreed upon by both the directors of DAS and OBM.

The workgroups commissioned over the years have provided multiple recommendations some of which have resulted in changes in Ohio's procurement practices i.e. increased use of electronic procurement and mandatory agency-wide contracts. However, the direct vendor purchasing and Controlling Board thresholds have not been adjusted in 23 years and remain set at \$50K respectively.

Other State Procurement Practices

The following information was gathered from the National Association of State Procurement Officials (NASPO). NASPO is a non-profit association committed to supporting public procurement. NASPO is comprised of the directors of the central purchasing offices in each of the 50 states and the District of Columbia. The organization promotes best practices, professional development, and innovative procurement strategies.

NASPO conducts a procurement survey every two years for all 50 states and District of Columbia. The survey titled "Survey of State Procurement Practices" collects data on procurement practices throughout the country to establish best practices and innovative procurement strategies. In 2018, NASPO sent out 51 surveys and received 48 completed surveys. The surveys are compiled and the results published on NASPO's website. The completed surveys are available online as well.

The data shows all states except Maryland have a central procurement office with three-fourths of the offices having statutory purchasing authority across all areas of procurement. A central procurement office is important because it allows for more efficient inventory control, lower staffing costs and decreased overhead. In addition, many respondents report using cooperative procurement to help save time and money for their state agencies. Cooperative purchasing offers states the potential of using pre-vetted industry vendors to obtain lower prices on a variety of goods and services. In 2018, cooperative purchasing was up 28% from 2015 throughout state government.

Forty-six out of forty-eight or 96% of the respondents have authority under their statutes or regulations to delegate portions of the procurement process to other entities within the state. These entities are permitted to solicit and make awards without the direct approval of the central procurement office. The dollar thresholds delegated vary widely by state and are often

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dependent on the type of procurement and the availability of statewide contracts. Some states allow higher limits or unlimited delegation provided competitive bidding is utilized and prior approval has been granted by the central procurement office.

Most respondents have a single Chief Procurement Officer (CPO). The CPO is the head of the state central procurement office and is responsible for all procurement across the state. Forty-one of forty-eight respondents or 85% have a single CPO. The remaining seven have no CPO or multiple CPOs. The survey results found most CPOs are employed at will and do not report directly to the Governor. (Only four states have CPOs that report directly to the governor.) The major responsibilities of the central procurement office and CPO include:

- Developing rules, policies and procedures for the purchase of goods and services
- Establishing statewide and agency-specific contracts
- Contract oversight and contract dispute resolution
- Procurement training
- Vendor registration

The results show the size of the state procurement office varies immensely depending on the state's population and procurement authority. Staff sizes range from five employees to more than 210 with approximately 2,213 procurement employees nationwide. Over 80% of the procurement offices indicated their responsibilities have increased in the past two years, while only 35% reported an increase in staff size. Staffing size continues to be an issue in 2018 with approximately 23% of the respondents experiencing a staff reduction or no staffing changes.

The survey results show the maximum dollar level the central purchasing organization delegates to other state agencies varies from state to state and often corresponds to the individuals in the central procurement office authorized to execute contracts. For example, while Alabama's maximum delegation amount is set at \$1,000 for commodities, IT equipment and IT services the CPO, Purchasing Manager and Purchasing Officers are authorized to execute contracts with an unlimited dollar threshold.

State Comparisons

Five states were selected to analyze their procurement practices in comparison with Ohio. We selected a large state, two small states and two midsize states based on population and budget size as of FY 2018. From largest to smallest the states selected were California, North Carolina, Georgia, Oklahoma, and New Hampshire. The information below is not intended to cover every situation in the procurement process but rather give a general overview of the procurement practices in each state.

State	Operating Budget	Population
Ohio	\$73.4B (FY 2018)	11.6M
California	\$190.3B (FY 2018-19)	39.8M
North Carolina	\$43.3B (FY 2018-19)	10.1M
Georgia	\$21.8B (FY 2018)	10.3M
Oklahoma	\$7.2B (FY 2018)	3.9M
New Hampshire	\$5.7B (FY 2018)	1.3M

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Ohio

Ohio's central procurement office has the authority to delegate portions of its purchasing authority to other state agencies. The maximum dollar amount allowed for IT and non-IT goods and services is \$50,000, building construction is \$215,000 and the maximum amount for building leases is \$75,000. Ohio's CPO, the Chief Procurement Officer reports to the Department of Administrative Services' (DAS) General Services Division's (GSD) Deputy Director. The GSD Deputy Director reports to the DAS Director, who then reports to the Governor.

As of 2018, Ohio has 89 staff in the state's central procurement office. Over time the staff size and their responsibilities have increased. Ohio uses an eProcurement system which includes utilizing purchasing cards (Pcards). A Pcard is a charge card that allows an agency representative to purchase goods and services without using a traditional procurement process. Currently Ohio's Pcard transaction limit is set at \$2,500 however, the transaction types are limited due to our financial management system (OAKS). Ohio is in the process of designing a better eProcurement system to address these issues.

Ohio's threshold for informal procurement is set at \$2,500. The process for purchases over \$2,500 varies by agency and is addressed by each agency's policies and procedures. The state's dollar threshold for formal competitive procurement is \$50K. The State of Ohio requires agencies to use requisite procurement programs or a DAS contract for purchases when available. Purchases of copiers, duplicators and vehicles require DAS approval regardless of cost. If requisite procurement programs or a DAS contract is not available and the purchase amount is greater than \$50K or the cumulative purchases from a vendor will exceed \$50K for the state fiscal year Controlling Board approval is required.

California

California's central procurement office, the Department of General Services (DGS) has the authority to delegate portions of its purchasing authority to other state agencies. The maximum dollar amount allowed for IT and non-IT goods and services is unlimited. California's CPO, the Chief Procurement Officer is appointed by the Governor however this position does not report directly to the Governor. The Chief Procurement Officer is authorized to execute contracts with an unlimited dollar threshold. The Purchasing Manager may execute contracts up to \$10M and the Purchasing Officers can execute contracts up to \$3M.

As of 2018, California has 210 staff in the state's central procurement office. Over time the staff size and their responsibilities have increased. California uses an eProcurement system which includes utilizing Pcards called CAL-Cards. Each card can be set up with a single transaction maximum, daily total maximum, monthly total maximum, quarterly total maximum and annual total maximum spending limits. These are not to exceed the assigned purchasing authority of \$100K. Higher limits are available upon approval by the DGS. Limits can also be placed on the number of transactions per day and per month for each cardholder.

Purchasing authority dollar thresholds are tied to acquisition methods. Some acquisition methods are complex and considered high risk while others are not. The Purchasing Authority Unit (PAU) within the DGS determines the appropriate dollar thresholds for each state department. The purchase of non-IT goods and services under \$100K and the purchase of IT goods and services under \$1M follow an informal competitive process while the purchase of non-IT goods and services over \$100K and IT goods and service over \$1M follow a formal process.

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Competitive purchasing authority is generally granted at lower dollar levels than Leveraged Procurement Agreements (LPA) due to the complexity and risk associated with these acquisitions. LPAs are pre-established contracts. LPAs are optional however, state departments are encouraged to take advantage of the benefits of using them as they streamline purchases by removing repetitive, resource intensive, costly, and time-consuming bid processes by departments. If a LPA is not utilized then the purchase must be processed as a Service Contract and follow Service Contract procedures.

North Carolina

North Carolina's central procurement office has the authority to delegate portions of its purchasing authority to other state agencies. The maximum dollar amount allowed for IT and non-IT goods and services is \$25,000. North Carolina's CPO, CPO the State Purchasing Director, is not appointed by the Governor nor does this position report directly to the Governor. The State Purchasing Director is authorized to execute contracts with an unlimited dollar threshold.

As of 2018, North Carolina has 34 staff in the state's central procurement office. Over time the staff size and responsibilities have stayed the same. North Carolina uses an eProcurement system which includes utilizing Pcards. The Pcard limit per transaction is \$2.5K or less.

North Carolina considers small purchases to be less than \$5K. The state's threshold for informal procurement is between \$5K and \$10K with competition unless a state term contract is utilized or under certain circumstances the agency waives competition. The use of state term contracts is strongly encouraged for all purchases however it is not required. For agency purchases over \$10K, the State Purchasing Director must approve the waiver of competition. The threshold of formal competitive procurement is \$10K for Agencies (non-IT), \$25K for Universities (non-IT) and 25K for Information Tech (IT).

Georgia

Georgia's central procurement office has the authority to delegate portions of its purchasing authority to other state agencies. The maximum dollar level for delegation is set at \$1M for IT and non-IT goods and service with the requirement to bid any purchase over \$25K, and get approval from the State Purchasing Deputy for any purchase over \$250K. Georgia's CPO the Deputy Commissioner, State Purchasing is not appointed by the Governor nor does this position report directly to the Governor. The Deputy Commissioner is authorized to execute contracts with an unlimited dollar threshold.

As of 2018, Georgia has 63 staff in the state's central procurement office. Over time the staff size has stayed the same while their responsibilities have increased. Georgia uses an eProcurement system which includes utilizing Pcards. The Pcard limit per transaction is \$1K or up to \$5K for preapproved purchases.

Georgia considers small purchases to be less than \$25K and does not require formal competitive bids however, the state encourages agencies to compare products and prices from at least three vendors prior to ordering. Purchases greater than \$25K require formal competitive bids unless a mandatory or convenience statewide contract is utilized as the competitive bidding process has been completed. A written waiver must be obtained from the State Purchasing Deputy when an agency does not utilize an available mandatory statewide contract. When a mandatory contract is not available, Georgia encourages the use of convenience contracts as

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they save time and ensure compliance with procurement rules. The use of statewide contracts both mandatory and convenience are not limited by a dollar amount or the agency's delegated purchasing authority.

Oklahoma

Oklahoma's central procurement office has the authority to delegate portions of its purchasing authority to other state agencies. Oklahoma's maximum dollar level for delegation is set at \$50K for all purchases except IT equipment and IT services which is set up to \$25K respectively if on the State CIO approved list. Oklahoma's CPO, the State Purchasing Director is not appointed by the Governor nor does this position report directly to the Governor. The State Purchasing Director has the authority to execute contracts with an unlimited dollar threshold. The Purchasing Manager and Purchasing Officers can execute contracts with a dollar threshold of \$50K to unlimited.

As of 2018, Oklahoma has 43 staff in the state's central procurement office. Over time the staff size has decreased while their responsibilities have increased. Oklahoma uses an eProcurement system which includes utilizing Pcards. The Pcard limit per transaction at \$5K. There is no limit on the transaction amount for purchases made from a statewide contract or for payment of utilities.

Oklahoma utilizes mandatory state term contracts for purchases greater than \$5K unless the State Purchasing Director has issued the agency a waiver. Purchases less than \$25K do not require a formal competitive procurement process when a state term contract is not available. Three quotes are recommended for purchases over \$5K up to and including \$10K and ten quotes for purchases over \$10K up to and including \$25K. Purchases over \$25K up to and including \$50K require a formal competitive process and all registered vendors must submit a written proposal. Agency purchases over \$50K up to and including \$100K require approval by the State Purchasing Director and written proposals from all suppliers. The State Purchasing Director is authorized to execute contracts with an unlimited dollar threshold. Buyer/Purchasing Officers and Purchasing Manager can execute contracts for \$50K to unlimited dollar threshold.

New Hampshire

New Hampshire's central procurement office has the authority to delegate purchasing authority to other state agencies. The maximum dollar level for delegation varies but is usually less than \$10K for commodities and personal services (excluding single-agency contracts). New Hampshire's CPO, the Director of Procurement and Support Services, is appointed by the Governor however this position does not report directly to the Governor. The Director of Procurement and Support Services has the authority to execute contracts up to \$50K. The Purchasing manager can execute contracts up to \$10K and the Purchasing Officers can execute contracts up to \$2.5K.

As of 2018, New Hampshire has 15 staff in the state's central procurement office. Over time the staff size and their responsibilities have increased. New Hampshire uses an eProcurement system which includes utilizing Pcards. The Pcard limit per transaction is set at \$500. Purchases over \$500 that are not covered by a Statewide Contract must be preapproved prior to purchase.

New Hampshire's dollar threshold for informal procurement is \$10K. Personal Service and General Service contracts under \$10K may be processed through the agency. The agency's Purchasing Agent may or may not chose to bid out items less than \$10K. If the Purchasing

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Agent decides not to bid out these purchases, it is recommended he/she obtain at least two quotes prior to purchase. Purchases greater than \$10K require a formal competitive bid process. New Hampshire has Commodity Contracts, Service Contracts and Supply and Installation. Contracts. Most items can be ordered directly from a contracted vendor. However, if a statewide contract is not available, the Director of Procurement is authorized to execute contracts up to \$50K.

The corresponding table arranged by each state provides a comparison snapshot of the information obtained from the 2018 NASPO survey "Survey of State Procurement Practices" (See Appendix).

Inflation

Inflation is the rising price of goods and services over time. The two methods we examined to measure the inflation rate are the Consumer Price Index (CPI) and the Gross Domestic Product (GDP) deflator.

The CPI is the average change over time in the prices paid by a typical consumer for goods including foreign goods. The U.S. Department of Labor (DOL) Bureau of Labor Statistics provides the public with monthly data on changes in the prices paid by consumers for goods known as the CPI. CPI is widely used as an economic indicator and most often used to measure inflation. The CPI gives the government, businesses and citizens an idea of price changes in the economy. CPI can also be used as a deflator for other economic factors including, but not limited to, purchasing power. Purchasing power is the number and quality of goods and services that can be purchased by a consumers. As the price of goods and services rise, a consumer's purchasing power decreases.

The GDP is the value of all goods produced in a country over the course of a year. The U.S. Bureau of Economic Analysis provides the public with quarterly data on macroeconomic and industry statistics as well as reports about the GDP. The GDP deflator is a tool used to measure the level of price changes over time so that current prices can be accurately compared to historical prices.

The GDP and CPI differ in that the GDP deflator is a measure of the prices of all goods and services produced domestically while the CPI is a measure of only goods bought by consumers including foreign goods. While the CPI is limited in what it measures, we can get a good idea of how inflation affects us because it measures the types of goods the vast majority of the population buys. Historically the CPI and GDP price deflator generate the same inflation rate. However, in the instances when the rates are different, the GDP tends to be slightly lower than the CPI.

According to the U.S. Department of Labor (DOL) Bureau of Labor Statistics CPI data, the total inflation rate from 1995 to 2018 is 65.47 percent and the average inflation rate from 1995 to 2018 is 2.21 percent annually. In 1995, retail goods or services costing \$50K now cost \$82,735 in 2018. Conversely \$50K in 1995 has the buying power of approximately \$30K today. According the U.S. Bureau of Economic Analysis GDP data, the total inflation rate from 1995 to 2017 is 50.0 percent. In 1995, retail goods or services costing \$50K now cost \$75,109 in 2017. Conversely \$50K in 1995 has the buying power of approximately \$25K today.

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The Ohio Revised Code has established the direct purchasing vendor threshold at the fixed dollar amount of \$50K instead of an adjustable amount accounting for inflation. As evidenced by our research, the State of Ohio's purchasing power has decreased over the years. In 1995, agencies could purchase more goods and services with \$50K than would be the case today.

CONCLUSION

Though the project's purposes originally set out to focus in on the \$50K vendor thresholds, as well as, secondary focuses on other thresholds and Controlling Board requests, we realized that our purpose would be better served in laying out well-balanced observations for those in the future who choose to review and advance Ohio's governmental procurement requirements. Change is often a difficult, long journey, but an absolute necessary to remain relevant and to stay on the cutting edge with all aspects of life. State procurement is not any different so the hope is that one day this document will play a part, even if but a small part, to move our processes forward with continuous improvement to better serve Ohioans and the many services that they depend on in a timely, efficient manner.

Controlling Board – Operating Requests involving competitive selection have decreased over the years, however, SFY2018's increase of 275 or 18.10 percent over SFY2017 is likely a sign that the utilization of the Pcard is becoming a much more efficient tool in today's procurement world within State government. The decision to collect vendor data on purchase made through this avenue is a valuable one. Having a better idea of the goods and services being purchased and from which vendors provides Ohio with essential information in leveraging buying power. The flip side to collecting the vendor data is that it will inevitably affect the need for additional Controlling Board Requests based on the \$50K vendor limit. One might extrapolate from the data that 83.40 percent of the requests are derived from only 12 state agencies. This is true, however, the cost is significant when factoring in the time and effort in submitting the request, making revisions as needed and prep work for the hearing and the time involved in attending the hearing. In addition to the requesting agency's time we need to consider OBM's, LSC's, legislator's and the Controlling Board's time and effort.

In reviewing State Procurement data, Ohio typically delegates more authority to its' state agencies than other states. Ohio has a higher threshold at \$50K for formal procurements than other states that we focused on, however, Ohio's threshold for informal procurement is lower compared to the other states which are less than \$5K, \$10K, \$25K and \$1M. By delegating the authority out, Ohio places more restraints on purchasing to manage risk.

The multi-agency work group that studied procurement in 2014 recommended a procurement officer certification program. This program was created but has yet to be rolled out to agency staff. The NASPO survey found North Carolina and Georgia both have a contract management training program. The certification program would increase internal controls and ensure proper procurement occurs at the agency level. The cost benefit of implementing and coordinating such a program would need to be factored in but in the long run, it could prove to be an invaluable asset. The 2014 workgroup also recommended the threshold be raised to \$100K if the agency has a certified buyer and the direct purchasing and Controlling Board thresholds be adjusted biannually utilizing the Consumer Price Index. If an agency does not have a certified buyer, they recommended lowering the direct purchasing threshold to \$25K. In addition, the work group

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recommended raising the quoting threshold, written contract threshold and the Pcard transaction limit.

If the goal of legislature is to keep the state of Ohio's purchasing power in-step with inflation then a responsive solution would be to index to the CPI rate. In utilizing the Consumer Price Index (CPI) to compare the \$50K vendor threshold from 1995 to 2018, we found that the vendor threshold would need to be adjusted to approximately \$82.7K to have the same buying power in 2018 as \$50K did back in 1995. By referencing an index in the ORC instead of going back to the ORC to change the purchasing threshold amount directly each time, the legislature would achieve the goal of maintaining the state of Ohio's purchasing power while streamlining the process. The thresholds could adjust bi-annually in alignment with the bi-annual budget as suggested by the 2014 work group.

Recommendations

They say a perfect time exists for everything, we hope this document will play a role in the future when discussing recommendations to state procurement practices including but not limited to adjusting the direct purchasing and Controlling Board thresholds.

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APPENDIX

State Comparison Table

	Ohio	California	North Carolina	Georgia	Oklahoma	New Hampshire
Does your state have a central procurement office?	No	Yes	Yes	Yes	Yes	Yes
Does the central procurement organization have authority to delegate portions of its authority to other state agencies?	Yes	Yes	Yes	Yes	Yes	Yes
Does your state have a single Chief Procurement Officer (CPO)?	Yes	Yes	Yes	Yes	Yes	Yes
What is the title of the CPO?	Chief Procurement Officer	Chief Procurement Officer	Deputy State Purchasing Officer	Deputy Commissioner, State Purchasing	State Purchasing Director	Director of Procurement and Support Services
Does the CPO develop rules, policies and procedures prescribing the manner in which goods and services may be purchased?	Yes	Yes	Yes	Yes	Yes	Yes
What is the CPO's position classification?	Appointed by Governor	Appointed by Governor	Appointed by other entity	Employed at will	Employed at will	Appointed by Governor
How many procurement staff make up state central procurement office?	89	210	34	63	43	15
In the last two years has the size of your staff increased, decreased or stayed the same?	Increased	Increased	Stayed the same	Stayed the same	Decreased	Increased
In the past two years has your office's responsibilities increased, decreased or stayed the same?	Increased	Increased	Stayed the same	Increased	Increased	Increased
What is your state's dollar threshold of informal procurement?	\$2,500	< 1 million	5-10K	< 25K	under 25K	< 10K
What is your state's dollar threshold of formal competitive procurement?	50K	> 1 million	10K Agencies (non-IT) and 25K (IT)	> 25K	25K and up	> 10K
Does your state use eProcurement system?	Yes	Yes	Yes	Yes	Yes	Yes
Does your state use Procurement Cards (Pcard)?	Yes	Yes	Yes	Yes	Yes	Yes
What is your state's per transaction limit without preapproval?	\$2,500	\$2,499.99	\$2,500	\$1,000	\$5,000	\$500