

# Report Highlights

## Why DLA Performed This Audit

This audit was performed to determine whether the seven percent price preference designed to promote the purchase of Alaska agricultural and fisheries products is accomplishing its objective.

## What DLA Recommends

1. The Department of Administration's chief procurement officer should promote the purchase of Alaska agricultural and fisheries products by educating and training state entities to include the seven percent preference in food-related contracts.
2. The University of Alaska's chief procurement officer should update procurement policies to include the seven percent Alaska agricultural and fisheries products price preference.
3. The Department of Natural Resources' administrative services director should use the formal large procurement solicitation process for Mt. McKinley Meat and Sausage Plant boxed meat purchases.
4. The Department of Labor and Workforce Development's administrative services director should use the formal large procurement solicitation process when aggregate Alaska Vocational Technical Center food expenditures are likely to exceed \$100,000.
5. The Department of Health and Social Services' assistant commissioner should use the formal large procurement solicitation process when aggregate Division of Juvenile Justice food expenditures are likely to exceed \$100,000.

# A Performance Audit of the Alaska Agricultural and Fisheries Products Preference – Use by State Entities

July 10, 2015

**Audit Control Number 02-30080-15**

## REPORT CONCLUSIONS

The Alaska agricultural and fisheries products preference does not significantly influence state entities' decisions to purchase in-state products because food is rarely purchased directly from Alaska producers. State entities either purchase food products from wholesalers or through contracts with service organizations. To the extent in-state products are available, the audit recommends encouraging the purchase of in-state products through contractual requirements with wholesalers and service organizations.

A survey of 12 state entities identified several factors that impede the purchase of Alaska agricultural and fisheries products directly from producers. Product availability is the most common barrier. Ordering and delivery systems also limit direct purchases from local producers.

The audit reviewed the food procurement process and found that, with two exceptions, the Alaska agricultural and fisheries products preference was correctly applied in large procurements. The audit also found that three state entities incorrectly applied small procurement rules to large dollar food purchases.

An evaluation of the Nutritional Alaskan Foods in Schools program, which offers grants to school districts for Alaska food product purchases, found the program was more successful at promoting the purchase of local products than the seven percent Alaska agricultural and fisheries products preference.

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# ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

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August 10, 2015

Members of the Legislative Budget  
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes,  
the attached report is submitted for your review.

DEPARTMENT OF ADMINISTRATION  
ALASKA AGRICULTURAL AND FISHERIES  
PRODUCTS PREFERENCE – USE BY STATE ENTITIES

July 10, 2015

Audit Control Number  
02-30080-15

This audit determines whether the seven percent preference designed to promote the purchase of Alaska agricultural and fisheries products is accomplishing its objective. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Fieldwork procedures utilized in the course of developing the findings and recommendations presented in this report are discussed in the Objectives, Scope, and Methodology.

A handwritten signature in blue ink, appearing to read "Kris Curtis".

Kris Curtis, CPA, CISA  
Legislative Auditor

## ABBREVIATIONS

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AAC	Alaska Administrative Code
ACN	Audit Control Number
AMHS	Alaska Marine Highway System
AMYA	Alaska Military Youth Academy
APH	Alaska Pioneer Homes
API	Alaska Psychiatric Institute
ARRC	Alaska Railroad Corporation
AS	Alaska Statute
ASMI	Alaska Seafood Marketing Institute
AVTEC	Alaska Vocational Technical Center
CISA	Certified Information Systems Auditor
CPA	Certified Public Accountant
CY	Calendar Year
DCCED	Department of Commerce, Community, and Economic Development
DCRA	Division of Community and Regional Affairs
DGS	Division of General Services
DHSS	Department of Health and Social Services
DJJ	Division of Juvenile Justice
DLA	Division of Legislative Audit
DLWD	Department of Labor and Workforce Development
DMVA	Department of Military and Veterans Affairs
DNR	Department of Natural Resources
DOA	Department of Administration
DOC	Department of Corrections
DoF	Division of Forestry
DOTPF	Department of Transportation and Public Facilities
ESS	ESS Support Services Worldwide
FY	Fiscal Year
Institutions	Division of Institutions
lb	Pound
MMM&S	Mt. McKinley Meat and Sausage Plant
NAFS	Nutritional Alaskan Foods in Schools
NMS	NANA Management Services, LLC
State	State of Alaska
UA	University of Alaska
UAA	University of Alaska Anchorage
UAF	University of Alaska Fairbanks
U.S.	United States
USDA	United States Department of Agriculture

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# CONTENTS

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<b>Report Sections</b>	Organization and Function	1
	Background Information	7
	Report Conclusions	9
	Findings and Recommendations	25
	Objectives, Scope, and Methodology	33
<b>Agency Responses</b>	Department of Administration	37
	Department of Health and Social Services	41
	Department of Labor and Workforce Development	43
	Department of Commerce, Community, and Economic Development	45
	Department of Military and Veterans Affairs	47
	Department of Natural Resources	49
	Department of Corrections	51
	Department of Transportation and Public Facilities	53
	University of Alaska	55
	Alaska Railroad Corporation	57
Legislative Auditor’s Additional Comments	59	

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# CONTENTS

## (Continued)

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<b>Exhibits</b>	Exhibit 1: State Law Requiring Seven Percent Price Preference	8
	Exhibit 2: Direct Purchases from Alaska Producers as a Percent of Total Food Expenditures for the 19-month period ending January 31, 2015	11
	Exhibit 3: Total Food Expenditures Incurred by Department Entities by Vendor Type	12
	Exhibit 4: AVTEC's Unsuccessful Attempt to Purchase In-State Products	14
	Exhibit 5: DOC Institutions – South Central Food Vendor Product Price Comparison, Prices in Effect from July 2013 through January 2015	20
	Exhibit 6: State Entities with Expenditures over \$100,000 by Vendor without Contract for the 19-month period ending January 31, 2015	21
	Exhibit 7: NAFS Fund Distributions for Alaska's Three Largest School Districts as of March 2015	23

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# ORGANIZATION AND FUNCTION

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Individual state departments and component units<sup>1</sup> are responsible for procuring food products necessary to meet their respective needs. The majority of state entities are required to conform to procurement standards implemented and enforced by the Department of Administration (DOA), Division of General Services (DGS).

To focus on significant food purchases, the audit reviewed state entities, including component units, that expended at least \$200,000 for food over the 19-month period from July 2013 through January 2015. Using this criterion, 12 state entities were identified expending a total of \$42 million.

## **Department of Administration, Division of General Services**

DOA provides centralized administrative services to state entities. DGS is responsible for overseeing the State's procurement function by providing training and certification to state departments and negotiating central contracts for use by all entities. The establishment of central contracts secures advantageous pricing through the State's purchasing power. There are three central food contracts with the following vendors: Country Foods Grocery, Inc., for milk and milk products (mandatory); Food Services of America, Inc., for various food items (non-mandatory); and Country Foods Grocery, Inc., for bakery products (non-mandatory). The majority of state entities are required to use mandatory contracts for purchases and encouraged to use non-mandatory contracts whenever practicable.

## **Department of Commerce, Community, and Economic Development (DCCED), Alaska Seafood Marketing Institute (ASMI)**

DCCED's mission is to promote a healthy economy, strong communities, and protect consumers in Alaska. DCCED ASMI is a partnership established between the State and Alaska's seafood industry to increase the economic value of Alaska's seafood resources by conducting consumer campaigns, public relations, and advertising activities. In FY 14, ASMI funds were used to purchase canned Alaskan pink salmon for disaster relief in the

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<sup>1</sup>Component units are legally separate entities for which the primary government is financially accountable.

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Philippines. According to DCCED management, this purchase was similar to ASMI's global food aid program which establishes new markets through government purchases of Alaska canned salmon for food aid programs worldwide.

**Department of  
Corrections (DOC),  
Division of Institutions  
(Institutions)**

DOC provides secure confinement, reformatory programs, and a process of supervised community reintegration for criminal offenders. DOC Institutions operates 13 correctional facilities at which meals are provided to inmates. Food is purchased from a variety of vendors, with over 99 percent from three large wholesalers: Country Foods Grocery, Inc., Food Services of America, Inc., and Quality Sales.

**Department of Health and  
Social Services (DHSS)**

DHSS' mission is to promote and protect the health and well-being of Alaskans. Three DHSS entities purchase food products: Alaska Pioneer Homes (APH), Alaska Psychiatric Institute (API), and the Division of Juvenile Justice (DJJ).

- APH are licensed assisted living homes owned and operated by the State. There are six pioneer homes located in Anchorage, Fairbanks, Palmer, Juneau, Ketchikan, and Sitka. Food services available to residents include meal preparations, dietary assessments, and medically prescribed diets. A majority of food services are provided under contract by NANA Management Services, LLC (NMS).
- API, organized under the Division of Behavioral Health, provides inpatient and outpatient behavioral health services for Alaska's metropolitan, rural, and tribal communities. The inpatient hospital is located in Anchorage and is the only public inpatient psychiatric institution in the state. Meals are provided to patients under contract by NMS.
- DJJ oversees eight youth detention and treatment facilities around the state. These facilities provide secure holding, short-term counseling, education services, health screening, medical care, mental health diagnostics and services, substance abuse education and prevention, and life-skills training. Youth facilities in Anchorage, Fairbanks, and Juneau also provide long-term detention and

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treatment services. Meals are provided to clients via different means. In FY 15, one facility prepared its own meals, four used catering services through reimbursable service agreements with DOC, and three used catering services by private entities.

**Department of Labor and Workforce Development (DLWD), Alaska Vocational Technical Center (AVTEC)**

DLWD’s mission is to promote safe and legal working conditions and opportunities for employees and job seekers in Alaska. DLWD operates AVTEC, Alaska’s oldest and largest institute for skills training in a wide variety of industrial and technological fields. Its mission is to train a diverse and effective workforce that supports the economic growth and stability of the state. AVTEC purchases food products for its Alaska Culinary Academy and its cafeteria. The Alaska Culinary Academy trains cooks and bakers for the hospitality industry. The cafeteria provides meals to students. Food is purchased from various vendors, with the majority being purchased from Sysco.

**Department of Military and Veterans Affairs (DMVA), Alaska Military Youth Academy (AMYA)**

DMVA’s mission is to provide military forces to accomplish military missions in the state and around the world, homeland security and defense, emergency response, veterans’ services, and youth military training and education. The youth training and education is provided by AMYA. Located at Joint Base Elmendorf-Richardson, AMYA is an accredited special purpose school that offers several programs designed to help Alaskan youth make positive life changes. Meals are provided for students during their enrollment; the majority of food products are purchased using central statewide contracts.

**Department of Natural Resources (DNR)**

DNR’s mission is to responsibly develop Alaska’s resources by making them available for maximum use and benefit consistent with the public interest. Two DNR entities purchase food products: the Division of Forestry (DoF) and Mt. McKinley Meat and Sausage Plant (MMM&S).

- DoF provides wild land fire protection services on over 150 million acres of land. Meals are provided to firefighters and other incident staff. The majority of food expenditures are incurred for

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fresh food boxes packed by North Slope Catering.

- MMM&S is a USDA-inspected slaughtering facility located in the Matanuska Valley. The facility is owned by the Agricultural Revolving Loan Fund and is managed by DNR's Division of Agriculture, while DOC provides labor in conjunction with the inmate training program. MMM&S offers slaughtering services and sells meat products to state entities (mostly DOC) and outside parties. Meat products are processed and packaged by inmates and come from two sources: boxed meats and slaughtered animals. Boxed meats are cuts of meat in sub-primal form, mostly shipped from out of state for resale. Live animals are purchased from local producers when available and processed at the plant by inmates.

## **Department of Transportation and Public Facilities (DOTPF), Alaska Marine Highway System (AMHS)**

DOTPF designs, constructs, operates, and maintains the State's transportation infrastructure systems, buildings, and other facilities, including AMHS. AMHS operates a fleet of 11 vessels along a 3,500 mile route from Washington State to the Aleutian Islands, providing transportation to coastal communities. All AMHS vessels, with the exception of the Lituya, offer food and beverage services. Hot and cold items are served throughout the day in self-service dining areas. The vessels Columbia and Tustumena also provide full-service dining rooms. Food Services of America, Inc. is AMHS' primary food vendor.

## **Alaska Railroad Corporation (ARRC)**

ARRC's mission is to provide safe, quality transportation and real estate services, and foster economic development. ARRC provides year-round passenger and freight services and owns approximately 36,228 acres in real estate holdings. Onboard food, bar service, and beverages are available for purchase on three main summer trains — the Coastal Classic, Denali Star, and Glacier Discovery — as well as the Aurora Winter Train. Food services are primarily provided under contract by ESS Support Services Worldwide.

## **University of Alaska (UA)**

UA's mission is to inspire learning, and to advance and disseminate knowledge through teaching, researching and public service, emphasizing the North and its diverse peoples.

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UA's three largest campuses — University of Alaska Anchorage (UAA), University of Alaska Fairbanks (UAF), and University of Alaska Southeast — are separately accredited institutions, as is Prince William Sound Community College in Valdez. System-wide, nearly 35,000 full-time and part-time students are enrolled, studying among 500 unique degree, certificate, or endorsement programs. Each campus is generally responsible for its own procurement.

UA purchases food products primarily for two purposes:

- *Teaching:* UAA offers an Associate of Applied Science degree in Culinary Arts and a Bachelor of Arts degree in Hospitality and Restaurant Management. UAF offers a certificate and an Associate of Applied Science degree in Culinary Arts and Hospitality. Food products are purchased from numerous vendors and used for teaching purposes.
- *Meals for students and faculty:* UA offers dining plans, catering, and conference services on its three major campuses that are currently provided by NMS.

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## BACKGROUND INFORMATION

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### **The Alaska agricultural industry supplies a small percentage of food.**

Largely due to Alaska's low population density and small number of farms, Alaskan farmers produce a limited volume of agricultural products and supply approximately two to five percent<sup>2</sup> of food consumed in the state. The short growing season limits the year-round availability of most agricultural products, and the state's vast geography results in significant transportation costs, thereby increasing the costs of goods sold. Consequently, Alaska agricultural producers can only provide a consistent supply of limited products year-round. Additionally, while a few Alaska commodities are competitively priced, many out-of-state products are less expensive.

Alaska's food marketplace is served by large national wholesalers and retailers that use national supply chains to sell mostly imported products. The success of local farmers markets is the exception. In the last 10 years, the number of local farmers markets in Alaska increased from 13 in 2005 to 43 in 2015.

### **The Alaska fisheries industry is a strong competitor in the global marketplace.**

In contrast to the Alaska agricultural industry, the fisheries industry has significant commercially-harvested resources. Alaska is one of the most bountiful fishing regions in the world, producing a wide variety of seafood year round. Pacific salmon, shrimp, crab, scallops, halibut, cod, pollock, and several kinds of "groundfish" are harvested. According to the Alaska Seafood Marketing Institute, roughly two-thirds of Alaskan seafood is exported, with China and Japan being the two largest foreign seafood buyers.

### **A seven percent price preference promotes the purchase of Alaska agricultural and fisheries products.**

The agricultural and fisheries products preference was originally established in 1986 to encourage state entities to use local instead of imported products. The original statutory preference required entities to purchase Alaska products whenever they were competitively priced, available, and of the same quality compared to agricultural or fisheries products harvested outside the state. The statute was modified in 1987 to grant a seven percent price preference to Alaska agricultural and fisheries products. The preference was intended to expand markets and result in more state jobs and better products.

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<sup>2</sup>According to Department of Natural Resources, Division of Agriculture.

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As described in Exhibit 1, the Alaska agricultural and fisheries products preference applies to state entities and other organizations using state money to purchase food (i.e. school districts and local governments). Entities are required to purchase Alaska agricultural and fisheries products as long as the price is no more than seven percent higher than comparable out-of-state products. This preference must be applied to the products' price during the procurement process and throughout the contract life. Although not specifically part of the *State Procurement Code*, the Alaska agricultural and fisheries products preference is administered by state entities in the same manner as other product preferences contained in the code.

**Exhibit 1**

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**State Law Requiring Seven Percent Price Preference**

*AS 36.15.050. Use of local agricultural and fisheries products required in purchases with state money.*

*(a) When agricultural products are purchased by the state or by a school district that receives state money, a seven percent preference shall be applied to the price of the products harvested in the state.*

*(b) When fisheries products are purchased by the state or by a school district that receives state money, a seven percent preference shall be applied to the price of the products harvested or processed within the jurisdiction of the state.*

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**The *State Procurement Code* provides fiscal safeguards.**

The *State Procurement Code*, promulgated in AS 36.30 and 2 AAC 12, provides rules and guidance for state entities to conduct procurement in an open, ethical, and transparent manner. It is designed to promote and encourage open competition in satisfying the State's needs, providing fair and equitable treatment to involved parties, maximizing the purchasing value of public funds, and providing safeguards for maintaining the state procurement system's quality and integrity.

The State's procurement rules vary depending on the procurement amount and can be separated between large procurements (purchases equal to or greater than \$100,000) and small procurements (purchases less than \$100,000).<sup>3</sup>

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<sup>3</sup>Thresholds for large and small procurements were updated in statutes effective June 27, 2013, and in regulations effective February 28, 2014.

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# REPORT CONCLUSIONS

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This audit determines whether the seven percent preference designed to promote the purchase of Alaska agricultural and fisheries products is accomplishing its objective. In making this determination, the audit:

- Reports on the amount of Alaska agricultural and fisheries products purchased by state entities;
- Identifies relevant factors in State purchasing decisions;
- Evaluates state entities' compliance with the Alaska agricultural and fisheries products preference requirements;
- Reviews and reports information contained in procurement and purchasing records; and
- Evaluates administration of the Nutritional Alaskan Foods in Schools (NAFS) program.

To focus on significant food purchases, the audit reviewed state entities, including component units, that expended at least \$200,000 for food over the 19-month period July 2013 through January 2015. Using this criterion, 12 state entities were identified expending a total of \$42 million.

The audit concluded that the Alaska agricultural and fisheries products preference does not significantly influence state entity decisions to purchase in-state products because food is rarely purchased directly from Alaska producers. State entities either purchase food products from wholesalers or through contracts with service organizations. To the extent products are available, the audit recommends encouraging the purchase of in-state products through contractual requirements with wholesalers and service organizations. (See Recommendation 1.)

A survey of 12 state entities identified several factors that impede the purchase of Alaska agricultural and fisheries products directly from producers. Product availability is the most common barrier. Ordering and delivery systems also limit direct purchases from local producers.

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The audit reviewed the procurement process and found that, with the exception of the Department of Commerce, Community, and Economic Development and the University of Alaska (UA), the Alaska agricultural and fisheries products preference was correctly applied in large procurements. UA did not include the preference during procurement due to general oversight. (See Recommendation 2.) The audit also found that three state entities incorrectly applied small procurement rules to large dollar food purchases. (See Recommendations 3, 4, and 5.)

An evaluation of the NAFS program, which offers grants to school districts for Alaska food product purchases, found the program was more successful at promoting the purchase of local products than the seven percent Alaska agricultural and fisheries products preference.

Detailed report conclusions are presented below.

**The Alaska agricultural and fisheries products preference is not effectively achieving its objective.**

The audit found that the Alaska agricultural and fisheries products preference does not significantly increase the purchase of in-state products. Despite this preference, less than two percent of food expenditures were purchased directly from Alaska agricultural and fisheries producers, and the preference was not a factor in the purchasing decisions. Exhibit 2 shows the total food expenditures versus direct purchases from Alaskan producers for state entities included in this audit. Information from Exhibit 2 is discussed in more detail on the subsequent pages.

**Exhibit 2**

**Direct Purchases from Alaska Producers  
as a Percent of Total Food Expenditures  
For the 19-month period ending January 31, 2015**

State Entity	Total Food Expenditures	Direct Purchases from Alaska Producers	Percent of Direct to Total
<b>Departments:</b>			
Department of Corrections (DOC), Division of Institutions (Institutions)	\$ 13,280,008	\$ 6,498	0.049%
Department of Health and Social Services (DHSS):			
Alaska Pioneer Homes (APH)	4,062,607	-	-
Division of Juvenile Justice (DJJ)	2,038,470	240	0.012%
Alaska Psychiatric Institute (API)	1,481,399	-	-
<b>DHSS Total</b>	<b>7,582,476</b>	<b>240</b>	<b>0.003%</b>
Department of Natural Resources (DNR):			
Division of Forestry (DoF)	1,870,138	-	-
Mt. McKinley Meat and Sausage Plant (MMM&S)	1,919,600	160,303	8.351%
<b>DNR Total</b>	<b>3,789,738</b>	<b>160,303</b>	<b>4.230%</b>
Department of Transportation and Public Facilities (DOTPF), Alaska Marine Highway System (AMHS)	4,233,340	1,235	0.029%
Department of Military and Veterans Affairs (DMVA), Alaska Military Youth Academy (AMYA)	844,259	-	-
Department of Labor and Workforce Development (DLWD), Alaska Vocational Technical Center (AVTEC)	601,581	2,715	0.451%
Department of Commerce, Community and Economic Development (DCCED), Alaska Seafood Marketing Institute (ASMI)	248,546	246,758	99.281%
<b>Total Department Entities</b>	<b>30,579,948</b>	<b>417,749</b>	<b>1.366%</b>
<b>Component Units:</b>			
University of Alaska (UA)*	10,782,422	65,018	0.603%
Alaska Railroad Corporation (ARRC)**	275,191	-	-
<b>Total State Entities</b>	<b>\$41,637,561</b>	<b>\$482,767</b>	<b>1.159%</b>

Source: Alaska State Accounting System, UA and ARRC financial records.

\*Total UA food expenditures are not available; the reported amount is for the largest food contract with NANA Management Services, LLC.

\*\*ARRC food expenditures are reported for CY 13 and CY 14 and do not include food service management fees.

## Department Entities

Exhibit 3 summarizes food expenditure by vendor type for 10 entities within seven state departments. The food expenditures totaled \$20.3 million in FY 14 and \$10.3 million during the first seven months of FY 15. Of these amounts, 95.6 percent and 97.7 percent, respectively, were purchased from wholesalers and service organizations. Wholesalers are intermediary entities selling a variety of food products purchased from multiple producers. Service organizations are entities providing comprehensive food services including facilities support, catering, and mobile food services. Service organizations are responsible for purchasing food products to fulfill contract obligations.

### Exhibit 3

Total Food Expenditures Incurred by Department Entities by Vendor Type						
Vendor Type	Number of Vendors	FY 14 Expenditures	Percent of Total	Number of Vendors	July 2014 – January 2015 Expenditures	Percent of Total
Wholesalers	14	\$13,579,653	66.984%	14	\$7,906,555	76.712%
Service Organizations	7	5,803,655	28.627%	5	2,165,366	21.009%
Alaskan Producers	15	318,666	1.572%	11	99,083	0.961%
Other*	15	233,544	1.152%	7	62,744	0.609%
Restaurants	13	168,891	0.833%	1	506	0.005%
Retailers	17	108,589	0.536%	12	49,979	0.485%
Beverage Distributors	5	47,876	0.236%	3	18,266	0.177%
Vendors with Purchases below \$500	78	12,195	0.060%	38	4,380	0.042%
<b>Total</b>	<b>164</b>	<b>\$20,273,069</b>	<b>100%</b>	<b>91</b>	<b>\$10,306,879</b>	<b>100.00%</b>

Source: Alaska State Accounting System.

\*The *Other* category includes: recreational vehicle parks and campgrounds; other direct selling establishments; other construction material merchant wholesalers; promoters of performing arts, sports, and similar events; nonscheduled chartered passenger air transportation companies; and transactions involving a state employee, another state, and credit card purchases or transactions with no vendor information.

Direct purchases from local producers constituted less than two percent in both years: \$318,666 from 15 Alaskan producers in FY 14 and \$99,083 from 11 Alaskan producers during the first seven months of FY 15. The largest purchase from an Alaskan

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vendor was a one-time DCCED procurement by ASMI of canned Alaska pink salmon for disaster relief in the Philippines (\$246,758). The second largest transaction type involved the purchases of live animals by MMM&S.<sup>4</sup> The remaining combined local product purchases totaled \$10,688 over the 19-month period and were made through the small procurement process.

### *University of Alaska*

UA's accounting records could not provide a total amount spent on food purchases because food-related expenditures were not tracked separately from non-food expenditures. However, records showed the largest UA food-related contract was awarded to NANA Management Services, LLC (NMS) resulting in \$6.6 million in food service expenditures in FY 14 and \$4.2 million from July 2014 through January 2015. NMS is a service organization providing food services to UA's largest campuses.

In the review of UA's vendors, local food producers were identified. Direct purchases from local producers totaled \$51,295 in FY 14 and \$13,723 from July 2014 through January 2015.

### *Alaska Railroad Corporation*

ARRC does not directly purchase agricultural and fisheries products. Food service on railroad passenger trains is provided through contracts with food service organizations. ARRC's food-related expenditures totaled<sup>5</sup> \$132,744 in CY 13 and \$142,447 in CY 14. The majority of these expenditures were paid to ESS Support Services Worldwide (ESS).

## **Product availability is the most significant obstacle to purchasing products from Alaska agricultural and fisheries producers.**

A survey of 12 state entities identified several factors that limit the purchase of Alaska agricultural and fisheries products. Product availability was the most significant limiting factor reported. Alaska agricultural products, with the exception of carrots and potatoes, are only available during the short growing season. Many state entities require strong, dependable supply of fresh produce year-round or operate during timeframes outside of the growing

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<sup>4</sup>MMM&S' purchase of live animals totaled \$68,361 in FY 14 and \$91,942 from July 2014 through January 2015. In the same periods, the plant spent \$1,113,876 and \$645,421 on boxed meats.

<sup>5</sup>Totals do not include management fees, because management fees include other non-food services.

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season. Exhibit 4 provides an example of AVTEC’s unsuccessful attempt to purchase Alaska agricultural products.

**Exhibit 4**

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**AVTEC’s Unsuccessful Attempt to Purchase In-state Products**

In January 2015, AVTEC procurement personnel contacted 113 Alaskan agricultural producers included in the Division of Agriculture’s *2014-2015 Alaska Grown Source Book* to request interest in supplying AVTEC with necessary food products. As of February 15, 2015, three emails returned non-deliverable, leaving 110 emails presumably received by Alaska producers. Of the 110, only 14 producers replied to AVTEC and none of the 14 could meet AVTEC’s needs. The most common reasons cited by the 14 producers were the small size of the farm operations, the inability to deliver to Seward, and the lack of required volumes and types of products.

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The use of service organizations and wholesalers by state entities also limits direct purchases from Alaskan producers. Food service organizations provide comprehensive catering services and are responsible for purchasing food products to fulfill contract obligations. State entities enter into contracts with service organizations because it is more cost effective than directly performing food catering or food packaging functions, or the food servicing is ancillary to the entity’s primary business purpose.

Convenient ordering and reliable delivery systems were two factors that promote the use of wholesalers. AMHS management reported that logistics was crucial, because the vessels:

*Operate in a huge geographical area and need to ensure ... food supplies are delivered in a consistent manner. So, [AMHS staff] seek a vendor with a strong distribution mechanism to maintain [the] food supply chain.*

DJJ management uses a large wholesaler because it takes only one day from order to delivery, the product quantity and availability are displayed at the time of order, and the nutritional information is provided for each product, helping DJJ’s staff develop menus that comply with federal requirements.

It is also difficult for local producers to compete in terms of

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product variety, substitutions, and food types. DoF provides fresh food boxes to firefighters in remote areas during the fire season. The box contents include items that cannot be locally supplied. AMYA and DJJ are required to provide a variety of foods for their federally funded lunch programs. AMYA management reported wholesale vendors provide *“a wide assortment of products that enable AMYA to offer a selection of choices that is uncommon for a secondary school, but essential for active teens in a residential education institution.”*

Other reasons provided by survey respondents for not buying directly from Alaskan producers include product price, quantity, packaging, and quality; administrative burden of working with multiple producers; and the lack of resources to prepare or process Alaska food products.

**With the exception of DCCED and UA, the Alaska agricultural and fisheries products preference was correctly applied in large procurements.**

The audit evaluated state entities’ compliance with the Alaska Statutes requiring the application of the seven percent price preference to Alaska agricultural and fisheries products. A review of 16 large procurements showed that most entities included the seven percent agricultural and fisheries products price preference in the invitations to bid or the requests for proposal. This was accomplished through the use of standard procurement language. However, there were three circumstances when the preference language was not included:

1. *Use of federal funds.* The request for proposals issued by DoF for fire crews’ fresh food boxes, by the University of Alaska Fairbanks (UAF) for dining and catering services, and by ARRC for passenger catering services intentionally excluded the preference because these services are partially funded by the federal government. Federal programs prohibit use of geographic preferences unless the applicable federal statutes expressly mandate or encourage geographic preference.
2. *Lack of procedures to incorporate the preference.* The procurement policy and rules for UA did not include reference to the seven percent Alaska agricultural and fisheries products

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price preference. Thus, procurement solicitation lacked the preference language, even for the procurement that was not federally funded. (See Recommendation 2.)

3. *Inaccurate interpretation of the law.* Due to confusion between multiple procurement preferences, DCCED procurement personnel denied local bidders the seven percent price preference under AS 36.15.050 during ASMI's procurement for Alaskan canned salmon. The procurement staff believed that, in order to receive this preference, a product must be certified by DCCED's Alaska Products Preference Program. The inaccurate interpretation of the law did not affect the procurement outcome as all bidders qualified for the Alaska agricultural and fisheries products preference.

**The Alaska agricultural and fisheries products preference was not included in the majority of service organization and wholesaler contracts reviewed.**

The Alaska agricultural and fisheries products preference was mainly viewed by state entities in the context of the procurement process. However, state law requires the preference also be included in contracts.<sup>6</sup> Despite this requirement, only two state entities included the preference in wholesalers' contracts. Specifically, DOC Institutions' and AMHS' wholesaler contracts stated that if, at the time of order, Alaska products are within seven percent of the comparable out-of-state products, the Alaska products should be purchased.

None of the service organizations' contracts reviewed included the seven percent price preference. However, five state entities (ARRC, UAF, API, APH, and DJJ) encouraged their service organizations to purchase Alaska products when possible. DHSS' procurement documents for API, APH, and DJJ included standard language encouraging the use of Alaska agricultural and fisheries products when in season and available. API's service organization, NMS, management stated that they use a variety of Alaska products in API's meals, including carrots and potatoes.

Similar to DHSS, ARRC's contract with the service organization, ESS, states, "*Contractor shall be expected to use locally grown and/*

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<sup>6</sup>AS 36.15.060.

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*or made products whenever financially and logistically viable.” ARRC management reported that Alaska food products served on trains include reindeer sausage; Alaskan seafood such as salmon, cod, shrimp, and scallops; and birch syrup products.*

To promote food sustainability and provide fresh quality foods for students, UAF’s catering services request for proposal issued in November 2014, includes extensive requirements for the use of local products. One of the requirements states:

*The Contractor shall propose an annual plan to achieve 4 [percent] of annual food procurement expenditures, measured in dollar terms, from Alaska-sources. The plan should outline the means and methods to achieve 20 [percent] of annual food expenditures from within the State of Alaska by the end of the 2020 Spring Semester.*

As discussed earlier, most food products reviewed as part of this audit were purchased from wholesalers or service organizations. Thus, including the Alaska agricultural and fisheries product preference in the related contracts may be more effective than the procurement process in encouraging the purchase of Alaska agricultural and fisheries products. (See Recommendation 1.)

**Food product purchasing records included varying levels of detail depending on the entity, vendor type, and procurement procedure.**

Reporting specific information contained in purchasing records was one of the audit objectives. Below are responses to specific audit questions based on a review of documents.

- **Do purchasing records specify sales by in-state producers?**

Purchasing records specify purchases directly from in-state producers. Additionally, invoice review for two large wholesalers, one providing food to DOC Institutions and another providing food to AMHS, showed purchases from these wholesalers included Alaska products. However, the total local products purchased was minimal and was not sufficiently tracked to provide an accurate total.

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- **Do purchasing records specify the amount [quantity] and sales price?**

While the procurement records from wholesalers and other direct food vendors included the quantity and sales price of food products, records from service organization contractors did not include this information by product. Service organizations focus on overall food service delivery. Related contract prices were calculated using the number and cost of meals rather than individual product quantities and prices.

- **Do purchasing records compare prices and was price a major factor in making purchasing decisions?**

Statutes require price to be a mandatory factor in bid and proposal evaluations. The review of 20 food procurements showed that price was considered in all the evaluations. However, price of local products was not a significant factor in the decisions. The majority of vendors did not include Alaska products in their bids and proposals, and did not request the Alaska agricultural and fisheries products price preference. DOC Institutions was the only entity to apply the seven percent preference to individual Alaska products' prices but the preference did not affect the vendor selection decision. While the total number of food items on reviewed bid schedules varied between approximately 200 and 440, depending on the invitation to bid, only 12 products were Alaskan, giving them insignificant weight in the bid evaluations.

- **Is there a typical price differential between Alaska agricultural products and out-of-state-products?**

With the exception of DOC's Institutions, procurement records reviewed did not include a price comparison of Alaska and out-of-state products, because most vendors did not sell Alaska products. DOC's Institutions' procurement records included prices of 12 comparable agricultural products. The price comparison of these 12 agricultural products showed that six in-state products were lower priced after considering management and shipping fees to Alaska.

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To compare prices for the 12 in-state and out-of-state agricultural products, the audit reviewed prices that were in effect from July 2013 through January 2015 for the wholesaler selling food products in the South Central region to DOC's Institutions. The South Central region was selected because it includes the majority of DOC's correctional facilities. The product prices were identified with and without management and shipping fees and compared.

The analysis showed only three of the 12 Alaska agricultural products were lower in unit price before considering management and shipping fees (green cabbage and two types of potatoes). However, upon including management and shipping fees, prices for three additional Alaska products were less than the out-of-state alternatives (jumbo carrots, romaine lettuce, and another type of potatoes). Prices for the other Alaska products were higher by more than seven percent. Exhibit 5 shows the price differentials by product.

**Exhibit 5**

DOC Institutions – South Central Food Vendor Product Price Comparison Prices in Effect from July 2013 through January 2015							
No.	Product Description	Without Shipping and Management Fees			With Shipping and Management Fees		
		Alaskan	Non-Alaskan	Percent Difference	Alaskan	Non-Alaskan	Percent Difference
1.	<b>Broccoli</b> , U.S. Grade 1, 14 bunch per carton.	27.70	15.87	74.54%	33.40	25.43	31.34%
2.	<b>Red Cabbage</b> , U.S. Grade 1, 2 to 4 lb per head (2-1/2 to 3-1/2 lb.), 50 lb per crate.	36.04	17.89	101.45%	43.58	33.78	29.01%
3.	<b>Green Cabbage</b> , U.S. Grade 1, 2 to 4 lb per head (2-1/2 to 3-1/2 lb.), 50 lb per crate.	25.00	27.08	-7.68%	32.04	40.16	-20.22%
4.	<b>Jumbo Carrots</b> , U.S. Grade 1, topped, 25 lb bag.	15.50	11.45	35.37%	19.45	19.99	-2.70%
5.	<b>Collard Greens</b> , 5 lb bag.	16.56	13.05	26.90%	19.87	16.50	20.42%
6.	<b>Green Leaf Lettuce</b> , 24 count, min. 25 lb case.	20.00	14.94	33.87%	25.00	22.42	11.51%
7.	<b>Romaine Lettuce</b> , U.S. Grade 1, 24 count, min. 35 lb case.	22.00	15.71	40.04%	27.38	27.60	-0.80%
8.	<b>Potatoes</b> , U.S. Grade 1, 100 ct., 50 lb.	19.38	12.56	54.30%	23.26	25.13	-7.44%
9.	<b>Potatoes</b> , U.S. Grade 1, 80 ct., 50 lb sack or box.	19.38	31.25	-37.98%	23.26	44.07	-47.22%
10.	<b>Potatoes</b> , U.S. Grade 1, size A, 50 lb sack or box.	14.00	22.29	-37.19%	17.88	32.73	-45.37%
11.	<b>Globular Radishes</b> , topped, 5 lb sack.	7.49	4.40	70.23%	8.99	6.70	34.18%
12.	<b>Zucchini Squash</b> , U.S. Grade 1, medium, 25 lb per lug.	26.88	15.18	77.08%	32.26	22.86	41.12%

Source: DOC procurement files and accounting records.

**Three state entities used small procurement rules for significant cumulative food purchases.**

MMM&S, AVTEC, and DJJ personnel purchased significant quantities of food products, incurring over \$100,000 in expenditures over a 19-month period without entering into a contract. (See Exhibit 6.) Alaska Statutes require contracts exceeding an aggregate dollar amount of \$100,000 to be awarded using large procurement rules.<sup>7</sup> Instead, MMM&S, AVTEC, and DJJ staff purchased food products on an order-by-order basis using the small procurement rules. (See Recommendations 3, 4, and 5.)

Benefits of implementing the large procurement rules include a formalized process for applying purchasing preferences. Additionally, the large procurement process helps ensure the State is receiving the best price for the aggregated volume of purchases, rather than paying retail prices for small orders.

**Exhibit 6**

State Entities with Expenditures over \$100,000 by Vendor without Contract For the 19-month period ending January 31, 2015		
State Entity	Vendor	Total Expenditures
DNR MMM&S:		
	Northern Meats Inc.	\$1,100,688
	Mike's Quality Meats Inc.	393,871
	Teddy's Tasty Meats Inc.	264,637
Total DNR MMM&S		1,759,196
DLWD AVTEC	Sysco Inc.	398,848
DHSS DJJ	DiTomaso Inc.	120,643

Source: Alaska State Accounting System.

<sup>7</sup>State Procurement Code, AS 36.30.

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**The NAFS program funded more food purchases from local producers than the application of the seven percent price preference by state entities.**

The NAFS program,<sup>8</sup> administered by DCCED's Division of Community and Regional Affairs (DCRA), was implemented in FY 13 to encourage Alaskan school districts to purchase nutritious, locally-harvested foods. NAFS funding was allocated to all the State's school districts based on the average daily student membership and the school districts' cost factor. Initially, the funds were distributed on a reimbursement basis up to the districts' allocation amount. The legislative budget documents state that, at year-end, the unspent funds should be distributed to the districts based on their average daily student membership. The school districts retain and use the funds as needed.

The legislature appropriated \$9 million for the NAFS program from FY 13 through FY 15;<sup>9</sup> the program was not included in the FY 16 budget. According to DCRA's records, as of March 2015, the \$9 million was allocated as follows:

- \$4 million were provided to school districts on a reimbursement basis for three grant years.
- \$2.8 million of unspent grant funds were distributed to school districts at the end of FY 13 and FY 14 grant years. These allotments were retained by school districts for use in subsequent years. DCRA does not track the usage of second allotments.
- \$2.2 million in FY 15 funds were not spent or distributed as second allotments because FY 15 had not ended at the time of audit fieldwork.

To identify the extent school districts have spent the second allotments, written confirmations were sent to the three largest school districts (Anchorage, Matanuska-Susitna, and Fairbanks). As of March 2015, the three districts had a total of \$1.3 million in unspent NAFS funds. (See Exhibit 7.) This amount does not reflect the FY 15 grant funds that had yet to be distributed by DCRA at the time of audit fieldwork.

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<sup>8</sup>NAFS was included within the scope of this audit because the program's goal is directly in line with the Alaska agricultural and fisheries products preference objective.

<sup>9</sup>Three million in each fiscal year.

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**Exhibit 7**

NAFS Fund Distributions for Alaska's Three Largest School Districts As of March 2015				
School District	Anchorage	Matanuska-Susitna Borough	Fairbanks North Star Borough	Total
Funds Distributed and Expended	1,287,506	422,765	31,911	1,742,182
Funds Distributed and Not Expended	616,863	357,085	325,828	1,299,776
FY 15 Undistributed	121,159	105,062	194,620	420,841
Total Funds Allocated	\$2,025,528	\$ 884,912	\$ 552,359	\$3,462,799

Source: School Districts' Confirmation Letters and DCRA Grant Documents.

The audit reviewed DCRA's grant files for the three largest school districts for each grant year. These files included invoices to support reimbursement requests and evidence that the grants administrator reviewed the support to ensure reimbursements were only for allowable food products. Based on DCRA's files and other documents summarizing payments made to all school districts, the NAFS funds were used to purchase food from over 100 Alaskan vendors and to cover the related shipping expenditures. Seafood comprised the majority of purchases.

From July 2013 through March 2015, the three largest school districts spent almost twice as much on food purchases from local producers than the 12 state entities reviewed as part of this audit. Additionally, when looking at all school districts, the districts purchased food products from over 100 vendors, while state entities' purchased from only 15 vendors in FY 14 and 11 from July 2014 through January 2015.

However, it was noted that the NAFS program does not require school districts to consider product price when making purchasing decisions. As long as the product is Alaskan, it is reimbursed by the grant regardless of the cost. If NAFS is reauthorized, DCRA's director should consider changing program requirements to ensure that school districts select reasonably priced products.

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## FINDINGS AND RECOMMENDATIONS

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**Recommendation 1:  
Department of  
Administration’s (DOA)  
chief procurement  
officer should promote  
the purchase of Alaska  
agricultural and fisheries  
products by educating  
and training state entities  
to include the preference  
in food-related contracts.**

The Alaska agricultural and fisheries products preference was not included in the majority of contracts reviewed as part of this audit. Alaska Statute 36.15.060 states:

*A clause containing the substance of the relevant subsection of AS 36.15.050 [Alaska agricultural and fisheries products preference] shall be inserted in all calls for bids and in all contracts awarded that involve agricultural or fisheries products.*

Generally, the audit found the preference was correctly included in calls for bids or requests for proposals, but not included as part of contracts.

Most state entities did not include the Alaska agricultural and fisheries products preference in food contracts because entities believed the preference was limited to the solicitation process. Given that less than two percent of food purchases reviewed as part of this audit were procured directly from producers, inclusion of the preference as part of the solicitation process had little impact on state entities’ decision to purchase in-state products. Over 90 percent of food expenditures are made through wholesale vendors or service organizations. Contractual provisions in effect over the life of wholesale and service organization contracts would be more effective in promoting the purchase of in-state agricultural and fisheries products.

We recommend DOA’s chief procurement officer promote the purchase of Alaska agricultural and fisheries products by educating and training state entities to include the preference in food-related contracts.

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**Recommendation 2:  
University of Alaska’s  
(UA) chief procurement  
officer should update UA’s  
procurement policies to  
include the seven percent  
Alaska agricultural and  
fisheries products price  
preference.**

UA’s 2007 solicitation for catering services for its three main campuses<sup>10</sup> did not incorporate the seven percent Alaska agricultural and fisheries products price preference. The preference was not included because UA’s standard procurement policies do not reference or require it. Although UA’s procurement policies included the preferences required by the State Procurement Code (AS 36.30), the policies, through general oversight, omitted the Alaska agricultural and fisheries products preference that is codified outside of the Procurement Code.

Alaska Statute 36.15.050 requires state entities, including UA, to apply the seven percent preference to the price of agricultural products harvested in the state and fisheries products harvested or processed in the state. By excluding this preference from the catering procurement, UA did not promote the purchase of Alaska agricultural and fisheries products for this specific procurement.

We recommend UA’s Chief Procurement Officer update UA’s procurement policies to include the seven percent Alaska agricultural and fisheries products price preference.

**Recommendation 3:  
Department of Natural  
Resources’ (DNR)  
administrative services  
director should use the  
formal large procurement  
solicitation process for  
Mt. McKinley Meat and  
Sausage Plant’s (MMM&S)  
boxed meat purchases.**

MMM&S personnel did not comply with state procurement rules when purchasing boxed meats. The MMM&S manager purchased boxed meats on an order-by-order basis using small procurement rules. Staff spent \$1,759,196 over a nineteen month period, July 2013 through January 2015, on boxed meats from three vendors without entering into a contract. The total expenditures for each of the three vendors exceeded \$100,000 each year.

Alaska Statutes require contracts exceeding an aggregate amount of \$100,000 be awarded using competitive sealed bidding or a competitive sealed proposal process.<sup>11</sup> Furthermore, the *State Procurement Code*, AS 36.30.320(d), prohibits artificial fragmentation of procurements to avoid the procurement thresholds set in law.<sup>12</sup> *Alaska Administrative Manual* 81.020 requires entities to consider the

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<sup>10</sup>For services from 2007 through 2015.

<sup>11</sup>*State Procurement Code*, AS 36.30.

<sup>12</sup>Artificial fragmentation is dividing or fragmenting purchases to avoid the large procurement rules.

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total value of all similar requirements for supplies and services to be solicited during the same time, from the same vendor group, when selecting a solicitation procedure.

DNR management cited the following reasons for purchasing on an order-by-order basis:

1. MMM&S staff are required to place short turnaround orders to meet a “shortage” need from Department of Corrections, Division of Institutions. The need must be met very quickly and is difficult to anticipate.
2. Many MMM&S’ purchases are specialty meat items not readily available from many suppliers.
3. Under a large procurement process, multiple contracts would be required. A single contractor would not be able to meet MMM&S’ needs.
4. The pricing for meat items fluctuates significantly. Entering into contracts would not lead to administrative efficiencies given that the plant manager would still have to obtain current pricing from the various contractors at the time of the order.
5. Purchasing on an order-by-order basis allows several vendors to benefit from the procurement.

DOA’s Division of General Services (DGS) procurement management stated that, in situations similar to MMM&S, state entities should consider a long-term contract, structured with no guaranteed minimum or maximum purchases and with a reserved right to inspect and reject orders not meeting acceptability requirements. If product availability from a single vendor is a concern, entities can use a multi-award contract, where two or more contractors are ranked and a method of selection is established (i.e. if the product is not available from the first-ranked contractor, it is sought from the second-ranked one). This helps ensure the State is receiving the best value for the aggregated volume of purchases, rather than paying retail prices for more frequent smaller orders.

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Separating the purchases into multiple orders may result in higher prices because price does not reflect the aggregated volume of purchases. Additionally, the administrative burden of completing price comparisons for every purchase is significant and could be alleviated by using contracts.

We recommend DNR's administrative services director use the formal large procurement solicitation process for MMM&S' boxed meat purchases.

**Recommendation 4:  
Department of Labor and  
Workforce Development's  
(DLWD) administrative  
services director should  
use the formal large  
procurement solicitation  
process when aggregate  
Alaska Vocational  
Technical Center (AVTEC)  
food expenditures are  
likely to exceed \$100,000.**

AVTEC staff purchased food items on an order-by-order basis using the small procurement rules when statutes require large procurement rules be followed. AVTEC personnel spent \$398,848 over a 19-month period, July 2013 through January 2015, on food purchases from one vendor without entering into a contract. Rather than soliciting for food through a large procurement process and entering into a contract, AVTEC staff used a price comparison software to determine the best pricing for each food order based on vendor historical prices. The system generates a determination for each order based on historical pricing and allows for automatically generated purchase orders to a vendor based on the total cost.

Alaska Statutes require contracts exceeding an aggregate dollar amount of \$100,000 be awarded using competitive sealed bidding or a competitive sealed proposal process.<sup>13</sup> Furthermore, the *State Procurement Code*, AS 36.30.320(d), prohibits artificial fragmentation of procurements to avoid the procurement thresholds set in law.<sup>14</sup> *Alaska Administrative Manual* 81.020 requires entities to consider the total value of all similar requirements for supplies and services to be solicited during the same time, from the same vendor group, when selecting a solicitation procedure.

DLWD management believes the use of the price comparison software allows AVTEC to meet the reasonable and adequate competition requirements for procurement. AVTEC staff attempted

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<sup>13</sup>*State Procurement Code*, AS 36.30.

<sup>14</sup>Artificial fragmentation is dividing or fragmenting purchases to avoid the large procurement rules.

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in the past to utilize DGS' central dairy contract; however, they encountered incorrect shipments, spoiled items and other problems that, per management, outweighed the cost savings realized. Each order is placed at the time a product is needed to allow for fresh goods.

DGS' procurement management stated that, in situations similar to AVTEC, state entities should consider a long term contract, structured with no guaranteed minimum or maximum purchases and with a reserved right to inspect and reject orders not meeting acceptability requirements. If product availability from a single vendor is a concern, entities can use a multi-award contract, where two or more contractors are ranked and a method of selection is established (i.e. if the product is not available from the first-ranked contractor, it is sought from the second-ranked one). This helps ensure the State is receiving the best value for the aggregated volume of purchases, rather than paying retail prices for more frequent smaller orders.

Separating the purchases into multiple orders may result in higher prices because price does not reflect the aggregated volume of purchases. Additionally, the administrative burden of completing price comparisons for every purchase is significant and could be alleviated by using contracts.

We recommend DLWD's administrative services director use the formal large procurement solicitation process when aggregate AVTEC food expenditures are likely to exceed \$100,000.

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**Recommendation 5:  
Department of Health and  
Social Services' (DHSS)  
assistant commissioner  
should use the formal  
large procurement  
solicitation process when  
aggregate Division of  
Juvenile Justice (DJJ) food  
expenditures are likely to  
exceed \$100,000.**

DHSS DJJ personnel purchased food items on an order-by-order basis using the small procurement rules when statutes require large procurement rules be followed. Staff spent \$120,643 over a nineteen month period, July 2013 through January 2015, on food purchases for McLaughlin Youth Center from one vendor without entering into a contract. According to management, DJJ staff started using this vendor on a regular basis in FY 14 because of quality and availability of food products.

Alaska Statutes require contracts exceeding an aggregate dollar amount of \$100,000 be awarded using competitive sealed bidding or a competitive sealed proposal process.<sup>15</sup> Furthermore, the *State Procurement Code*, AS 36.30.320(d) prohibits artificial fragmentation of procurements to avoid the procurement thresholds set in law.<sup>16</sup> The *Alaska Administrative Manual* 81.020 requires entities to consider the total value of all similar requirements for supplies and services to be solicited during the same time, from the same vendor group, when selecting a solicitation procedure.

DHSS management reported that fresh produce quality, availability, and price concerns faced by DJJ McLaughlin Youth Facility limits the use of formal large procurements. Per management, it is not possible to predict the types, availability, and quantities of products needed due to fluctuations in the number of residents at the McLaughlin Youth Center. Additionally, quality fluctuations require the agency switch vendors depending on which vendor has the availability and best quality product at the best price. DHSS management reported that they are in the process of reviewing the procurement options while balancing cost containment.

DGS' procurement management stated that, in situations similar to DJJ, state entities should consider a long term contract, structured with no guaranteed minimum or maximum purchases and with a reserved right to inspect and reject orders not meeting acceptability requirements. If product availability from a single vendor is a concern, entities can use a multi-award contract, where two or more contractors are ranked and a method of selection is established (i.e. if the product is not available from the first-ranked

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<sup>15</sup>*State Procurement Code*, AS 36.30.

<sup>16</sup>Artificial fragmentation is dividing or fragmenting purchases to avoid the large procurement rules.

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contractor, it is sought from the second-ranked one). This helps ensure the State is receiving the best value for the aggregated volume of purchases, rather than paying retail prices for more frequent smaller orders.

Separating the purchases into multiple orders may result in higher prices because price does not reflect the aggregated volume of purchases. Additionally, the administrative burden of completing price comparisons for every purchase is significant and could be alleviated by using contracts.

We recommend DHSS' assistant commissioner use the formal large procurement solicitation process, when aggregate DJJ food expenditures are likely to exceed \$100,000.

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# OBJECTIVES, SCOPE, AND METHODOLOGY

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In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, we have conducted a performance audit of the Alaska agricultural and fisheries products preference.

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## Objectives

This audit determines whether state law designed to promote the purchase of Alaska agricultural and fisheries products<sup>17</sup> is accomplishing its objective. Specifically, the audit objectives were to:

- Report on the amount of Alaska agricultural and fisheries products purchased by state entities;
- Identify relevant factors in State purchasing decisions, including the determination whether the available amount of product was an issue when trying to purchase Alaska agricultural or fisheries products;
- Evaluate state entities' compliance with the Alaska agricultural and fisheries products preference requirements;
- Review and report information contained in procurement and purchasing records to determine whether:
  - o The purchasing records specify sales by in-state producers;
  - o The records specify the amount [quantity] and sale price;
  - o The records compare prices;
  - o The purchaser considered purchasing Alaska agricultural and fisheries products;
  - o Price was a major factor in making purchasing decisions; and,
  - o There is a typical price differential between Alaska products and out-of-state products;

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<sup>17</sup>AS 36.15.050.

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- Evaluate the administration of Nutritional Alaskan Foods in Schools (NAFS) program to determine if it was successful in promoting state products.
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## Scope

The audit reviewed state entities, including component units, that incurred at least \$200,000 in food purchases over the 19-month period from July 2013 through January 2015. Ten state entities and two component units that met this threshold were subject to audit procedures. Applicable accounting and procurement records were reviewed for the 19-month period.

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## Methodology

To address the objectives, the audit:

- Identified Alaska agricultural and fisheries producers by comparing state entities' records to the following databases: Department of Natural Resources (DNR), Division of Agriculture's *Alaska Grown Source Book* (2014-2015 Edition); Department of Commerce, Community, and Economic Development (DCCED), Division of Corporations, Business and Professional Licensing business licensing database and Alaska Product Preference Program; Alaska Seafood Marketing Institute's (ASMI) Supplier Directory; Alaska Commercial Fisheries Entry Commission's list of harvesters; Department of Environmental Conservation, Division of Environmental Health's seafood processing permits; and Department of Revenue, Tax Division's Alaska fisheries business licenses. For the identified Alaska producers, the total food purchases were determined.
- Determined Alaska agricultural and fisheries products purchased from wholesalers by the Department of Corrections and the Department of Transportation and Public Facilities' Alaska Marine Highway System by reviewing a sample of invoices.<sup>18</sup> The sample size consisted of 25 for each entity and was selected based on low control and inherent risks. The testing results were projected to the invoice populations.
- Categorized material food purchases using industry classification

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<sup>18</sup>No other state entity had identifiable Alaska product purchases from wholesalers.

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system from DCCED's Division of Corporations, Business, and Professional Licensing database to gain an understanding of the types of food vendors.

- Interviewed representatives of state entities to gain an understanding of their buying practices. Based on the interviews, a survey email was designed and sent to identify the primary reasons entities did not buy food directly from Alaskan producers. Additionally, results of the Alaska Vocational Technical Center procurement specialist's outreach to local agricultural producers was reviewed.
- Reviewed applicable statutes, regulations, as well as administrative and procurement manuals to gain an understanding of procurement requirements.
- Selected a judgmental sample of 20 vendors from the population of 223 vendors based on total food expenditures, vendor, and procurement type. Total expenditure testing coverage for selected vendors was \$39.5 of \$41.6 million (or 95 percent) in the 19-month period ending January 2015. For the selected entities, solicitations, submitted proposals and bids, evaluation documents, and contracts were reviewed to evaluate compliance with the preference requirement, to determine if the control over the preference was operating effectively, and to address the detailed audit objectives. In addition to the 20 vendors, the audit also reviewed the Alaska Railroad Corporation's 2013 request for proposal and contract for its service organization and the University of Alaska Fairbanks's 2014 request for proposal for dining services to determine if the preference was included in the procurement documents.
- Determined a price differential between Alaska and out-of-state products by comparing prices for 12 agricultural products sold to the Department of Corrections' (DOC) Division of Institutions. Wholesale prices for DOC South Central Region were selected for comparison because this region includes the majority of DOC's correctional facilities, and because records of other state entities did not include a price comparison of in-state and out-of-state products.
- Gained understanding of NAFS by reviewing budget documents, annual reports, expenditure information, and the University of Alaska Anchorage's NAFS study, as well as conducting inquiries of DCCED's

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Division of Community and Regional Affairs personnel.

- Reviewed DCCED grant files and sent certification letters to the three largest school districts (Anchorage, Matanuska-Susitna, and Fairbanks) to evaluate compliance with NAFS requirements and identify the unspent balances for each grant award.

# Agency Response from the Department of Administration



THE STATE  
of **ALASKA**  
GOVERNOR BILL WALKER

## Department of Administration

OFFICE OF THE COMMISSIONER

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September 30, 2015

Ms. Kris Curtis, CPA, CISA  
Legislative Auditor  
Alaska State Legislature  
Legislative Budget and Audit Committee  
PO Box 113300  
Juneau, AK 99811-3300

RECEIVED  
SEP 30 2015  
LEGISLATIVE AUDIT

Dear Ms. Curtis:

**RE: Response to Confidential Preliminary Audit Report, Department of Administration, A Performance Audit of the Alaska Agricultural and Fisheries Products Preference – Use by State Entities, July 10, 2015**

This is in response to Recommendation No. 1 and the conclusions of the audit conducted regarding the application of the Alaska Agricultural and Fisheries Products Preference dated July 10, 2015.

### Recommendation 1

DOA's chief procurement officer should promote the purchase of Alaska agricultural and fisheries products by educating and training state entities to include the preference in food-related contracts.

The department is in general agreement with this recommendation. The Division of General Services (DGS) Purchasing Section has developed a procurement officer training and certification program that includes an overview of procurement preferences, including descriptions of preferences and practical application exercises, as part of the initial certification process and offers a standalone preferences class that goes into each procurement preference set out in AS 36.15 and AS 36.30 in detail, including the Alaska Agricultural and Fisheries Products Preference. In addition, DGS maintains and provides an Application of Preferences guide that is available on the Purchasing Section's website that also includes descriptions and examples of how to apply procurement preferences.

However, the narrative for Recommendation 1 includes the following finding:

*Generally, the audit found the preference was correctly included in calls for bids or requests for proposals, but not included as part of contracts.*

*Most state entities did not include the Alaska agricultural and fisheries products preference in food contracts because entities believed the preference was limited to the solicitation process.*

This is based on an interpretation of AS 36.30.060, which requires that:

*A clause containing the substance of [the Alaska agricultural and fisheries products preference] shall be inserted in all calls for bids and in all contracts awarded that involve agricultural or fisheries products. [Emphasis added.]*

Procurement preferences have historically been applied only at the time of solicitation for evaluation purposes to determine award of the contract, as was found by the auditor with entities' application of the Alaska agricultural and fisheries products preference. This initial application of the preference results in a seven percent reduction in the evaluated price for bids or proposals of those vendors offering Alaska agricultural and fisheries products compared to those who are not offering such products. When this seven percent reduction results in a vendor having the lowest evaluated cost, the contract would be awarded to that vendor and the intent of the preference to promote the purchase of Alaska products has been met.

Preferences are typically not considered after award because vendor selection by the state entity has already been made and the intent of the preferences has been satisfied by giving preference to an Alaskan vendor and/or a vendor offering qualifying products, which may or may not result in a contract award.

As this audit found that over 90 percent of food purchases are made through wholesale vendors or service providers, the implication of including the Alaska agricultural and fisheries preference in these types of contracts after award would be that the state entity is directing the wholesale vendors or service provider on how they should conduct *their* selection process and may encroach on the independence a contractor must have in fulfilling its obligations to the state.

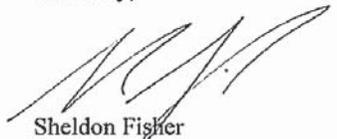
Additionally, because of the specific nature of Alaska's procurement processes, they have always been very narrowly construed by the state. In this case, the preferences set forth in AS 36.15.050(a) and (b) are very specific to "agricultural products" and "fisheries products" that have been "harvested in the state." To the extent that the Alaska agricultural and fisheries products preference applies to *all* food-related contracts, as described in the recommendation, is questionable.

Considering these concerns with including the Alaska agricultural and fisheries preference in contract awards, rather than imposing AS 36.15.050 on wholesale vendors and food service providers, it is recommended that the approach noted in the audit findings that has been taken by the Department of Health and Social Services and the University of Alaska – Fairbanks, which set expectations of the contractor to use locally-grown products whenever financially and logistically possible and/or require the contractor to develop a plan for meeting specific locally-grown goals, is adapted and promoted to all state entities to consider when they are developing food-related solicitations. These approaches would appear to meet the general intent of AS 36.15.050, yet allow contractors the flexibility and independence to meet them in their own manner. To accomplish this, sample language would be developed and incorporated into solicitation templates used by state entities.

An alternate approach would be to merge the requirements of AS 36.15.050 and AS 36.30.322 into the Alaska Products Preference program described in AS 36.30.332 and managed by the Department of Commerce, Community, and Economic Development (DCCED). Doing so would eliminate confusion by both state entities and vendors by reducing overlap between the requirements of AS 36.15.050, AS 36.30.322, and AS 36.30.332. The Alaska Products Preference requires registration of qualifying products and provides an easy-to-reference list to entity procurement staff and the general public. An Alaskan agricultural or fisheries product that qualifies as a class III Alaska product, meaning it is 75% or more produced in the state, would continue to receive a seven percent preference. This approach would require DOA to work with DCCED to modify statutes in AS 36.15 and possibly the regulations governing the Alaska Products Preference program.

Thank you for the opportunity to respond to the preliminary report.

Sincerely,



Sheldon Fisher  
Commissioner  
Department of Administration

cc: Leslie Riddle, Deputy Commissioner, Department of Administration  
Tom Mayer, Division Director, Division of General Services, Department of Administration  
Cheryl Lowenstein, Director, Division of Administrative Services, Department of Administration

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# Agency Response from the Department of Health and Social Services



THE STATE  
of ALASKA  
GOVERNOR BILL WALKER

## Department of Health and Social Services

OFFICE OF THE COMMISSIONER

Anchorage  
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Anchorage, Alaska 99503-5923  
Main: 907.269.7800  
Fax: 907.269.0060

Juneau  
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Fax: 907.465.3068

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SEP 24 2015  
LEGISLATIVE AUDIT

September 24, 2015

Ms. Kris Curtis, CPA, CISA  
Legislative Auditor  
Legislative Budget and Audit Committee  
Division of Legislative Audit  
P.O. Box 113300  
Juneau, Alaska 99811-3300

Dear Ms. Curtis:

RE: Response to Confidential Preliminary Audit Report on Department of Administration, A Performance Audit of the Alaska Agricultural and Fisheries Products Preference – Use by State Entities, July 10, 2015

We appreciate the opportunity to review and evaluate the audit report and associated recommendations as shared in your confidential preliminary audit report September 10, 2015. The Department of Health and Social Services (DHSS) is in general agreement with the report as shared and has the following response to recommendation number five, which is specific to agency operations.

#### Recommendation No. 5

DHSS' assistant commissioner should implement the formal large procurement solicitation process when aggregate Division of Juvenile Justice (DJJ) expenditures are likely to exceed \$100,000.

DHSS concurs with the recommendation. DJJ is actively working with the DHSS procurement section to explore its procurement options. The purchase of fresh produce adds considerations that are not required for most other purchases. DJJ must select a procurement option that enables the agency access to fresh produce in the correct quantity at the best price while containing the cost associated with locating a vendor who has the available fresh produce satisfying those requirements.

Ms. Kris Curtis, CPA, CISA  
September 24, 2015  
Page 2 of 2

Thank you for the opportunity to provide a response

Sincerely



Valerie J. Davidson  
Commissioner

Cc: Sana P. Efir, Assistant Commissioner  
Jon Sherwood, Deputy Commissioner  
Karen Forrest, Deputy Commissioner  
Vickie Wilson, Acting Director of Alaska Pioneer Homes  
Albert Wall, Director of Division of Behavioral Health  
Leonard R. Wood, Acting Director of Division of Juvenile Justice  
Darla Madden, Grants and Procurement Manager  
Linnea Osborne, Accountant V

# Agency Response from the Department of Labor and Workforce Development



THE STATE  
of **ALASKA**  
GOVERNOR BILL WALKER

Department of Labor and  
Workforce Development

Office of the Commissioner

Post Office Box 111149  
Juneau, Alaska 99811  
Main: 907.465.2700  
Fax: 907.465.2784

September 18, 2015

Ms. Kris Curtis  
Alaska State Legislature  
Division of Legislative Audit  
P.O. Box 113300  
Juneau, AK 99811-3300

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SEP 21 2015  
LEGISLATIVE AUDIT

Dear Ms. Curtis,

This letter provides a response from the Department of Labor and Workforce Development (DLWD) related to the Division of Legislative Audit recommendation detailed in the Preliminary Report, Department of Administration (DOA), Alaska Agricultural and Fisheries Products Preference, Audit Control Number 02-30080-15.

#### Recommendation 4

Department of Labor and Workforce Development's (DLWD) administrative services director should use the formal large procurement solicitation process when aggregate Alaska Vocational Technical Center (AVTEC) food expenditures are likely to exceed \$100,000.

#### DLWD Response

DLWD concurs with the recommendation. The administrative services director will work with staff and the Division of General Services (DGS) to establish multi-year, multi-award contracts for the purchase of AVTEC food products when expenditures are likely to exceed \$100,000. DLWD anticipates establishment of multi-award contracts with cooperation and assistance from DGS, by January 31, 2016.

Thank you for the opportunity to respond to this report.

Sincerely,

  
Heidi Drygas  
Commissioner

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# Agency Response from the Department of Commerce, Community, and Economic Development



THE STATE  
of **ALASKA**  
GOVERNOR BILL WALKER

## Department of Commerce, Community, and Economic Development

OFFICE OF THE COMMISSIONER

550 West Seventh Avenue, Suite 1535  
Anchorage, AK 99501  
Main: 907.269.8100  
Fax: 907.269.8125

October 1, 2015

Ms. Kris Curtis, CPA, CISA  
Legislative Auditor  
Alaska State Legislature  
Legislative Budget and Audit Committee  
Division of Legislative Audit  
P.O. Box 113300  
Juneau, AK 99811-3300

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OCT 01 2015  
LEGISLATIVE AUDIT

RE: Department of Administration (DOA), Division of General Services (DGS), Alaska  
Agricultural and Fisheries Products Preference – Use by State Entities

Dear Ms. Curtis:

Thank you for the September 10, 2015, preliminary audit report regarding the use of Alaska Agricultural and Fisheries Products Preference by state entities. While the preliminary audit did not contain formal recommendations for the Department of Commerce, Community and Economic Development (DCCED), it did contain conclusions related to department procurement for Alaska canned salmon, and to the Nutritional Alaskan Foods in Schools (NAFS) program.

Conclusion: With the exception of DCCED and UA, the Alaska agricultural and fisheries products preference was correctly applied in large procurements.

Item three under this conclusion states: "Due to confusion between multiple procurement preferences, DCCED procurement personnel denied local bidders the seven percent product preference under AS 36.15.050 during ASMP's procurement for Alaskan canned salmon. . . . The inaccurate interpretation of the law did not affect the procurement outcome as all bidders qualified for the Alaska agricultural and fisheries products preference."

The department concurs with this conclusion. The Local Agricultural and Fisheries Product Preference will be applied correctly in future DCCED procurements.

Conclusion: The NAFS program funded more food purchases from local producers than the application of the seven percent price preference by state entities.

---

Kris Curtis, CPA, CISA – Legislative Budget & Audit  
October 1, 2015  
Page 2

This conclusion included the statement “If NAFS is reauthorized, DCRA’s director should consider changing program requirements to ensure that school districts select reasonably priced products.”

The department concurs with this conclusion. If the NAFS program is reauthorized by the legislature in the future, the department will evaluate program requirements related to product pricing.

Again, thank you for the opportunity to respond to the recommendations and conclusions.

Best Regards,

A handwritten signature in blue ink, appearing to read 'CHLADICK', is written over the typed name.

Chris Hladick  
Commissioner

cc: Catherine Reardon, Administrative Services Director  
Katharine Eldemar, Division of Community and Regional Affairs Director

# Agency Response from the Department of Military and Veterans Affairs



THE STATE  
of **ALASKA**  
GOVERNOR BILL WALKER

## Department of Military and Veterans Affairs

Office of the Commissioner

P.O. Box 5800

JBER, AK 99505-0800

Main: 907.428.6003

Fax: 907.428.6019

October 1, 2015

Ms. Kris Curtis  
Division of Legislative Audit  
PO Box 113300  
Juneau, AK 99811-3300

RECEIVED  
OCT 01 2015  
LEGISLATIVE AUDIT

RE: "CONFIDENTIAL" preliminary audit report on: Department of Administration, A Performance Audit of the Alaska Agricultural and Fisheries Products Preference – Use by State Entities, July 10, 2015

Dear Ms. Curtis:

Thank you for the opportunity to respond to the preliminary audit report on Department of Administration, A Performance Audit on Alaska Agricultural and Fisheries Products Preference – Use by State Entities July 10, 2015. You requested that we respond to the Report Conclusions as well as the Findings and Recommendations.

The Department of Military and Veterans' Affairs (DMVA) did not receive any findings or recommendations. Therefore, we have no response to provide. However, the DMVA agrees with the general conclusions in the report.

Again, I thank you for the opportunity to provide a response. If you have any other questions or the department can be of further assistance, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Laurel J. Hummel".

Laurel J. Hummel, Commissioner  
Department of Military and Veterans' Affairs

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# Agency Response from the Department of Natural Resources



THE STATE  
of **ALASKA**  
GOVERNOR BILL WALKER

Department of Natural Resources  
COMMISSIONER'S OFFICE

550 W. 7<sup>th</sup> #1400  
Anchorage, AK 99501  
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Fax: 907.269.8918

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OCT 01 2015  
LEGISLATIVE AUDIT

October 1, 2015

Kris Curtis  
Legislative Auditor  
Division of Legislative Audit  
P.O. Box 113300  
Juneau, Alaska 99811-3300

Re: Preliminary Report of Alaska Agricultural and Fisheries Projects Preference – Use by State Entities

Dear Ms. Curtis:

Thank you for the opportunity to provide a written response to the Preliminary Report on the Alaska Agricultural and Fisheries Projects Preference – Use by State Entities. The department appreciates the time and effort you and your staff put into the completion of this audit.

The Report Conclusions, excerpted in part, state:

*The audit concludes that the Alaska agricultural and fisheries products preference does not significantly influence decisions to purchase in-state products because food is rarely purchased directly from Alaska producers. State entities either purchase food products from wholesalers or through contracts with service organizations. To the extent products are available, the audit recommends encouraging the purchase of in-state products through contractual requirements with wholesalers and service organizations.*

DNR agrees with the report's conclusion that the Alaska agricultural and fisheries products preference does not significantly influence decisions to purchase in-state products, to the degree the institutional expertise of DNR is involved in such purchases. We agree that language needs to be included in procurement contracts that mandate the purchase of Alaska products when local products are in season and/or available and also fall within seven percent of the comparable out-of-state products. We have found that wholesalers are often reluctant to fill orders with Alaska product although it is available, unless it is a requirement of the contract. DNR has seen increased purchases of local good from the Department of Corrections (DOC) when this language was included in their contracts.

#### **DNR Response to Findings and Recommendations**

Upon review it did not appear that Recommendations 2, 4, and 5 concerned issues under the jurisdiction or direct authority of DNR, and consequently no comment is provided about them. If additional discussion on these points is required in the course of completing the audit, the DNR Commissioner's Office, the Division of Agriculture, or the Division of Support Services will be made available for further comment. Regarding Recommendations 1 and 3:

Recommendation 1

*DOA's chief procurement officer should promote the purchase of Alaska agricultural and fisheries products by educating and training state entities to include the preference in food-related contracts.*

DNR understands the need to apply the procurement law in a consistent and comprehensive manner. We await direction from DOA on what modifications may be made to procurement processes as a result of this recommendation, and will assist DOA as requested to inform how this change may impact DNR related procurements. Once guidance is provided, DNR will make every effort to act in accordance with law and the procurement code.

Recommendation 3

*DNR's administrative services director should implement the formal large procurement solicitation process for MMM&S' boxed meat purchases.*

The Department of Natural Resources concurs with Recommendation 3 and is implementing the formal large procurement solicitation process for Mount McKinley Meat & Sausage (MMM&S) boxed meat purchases, and will consider the use of the multi-award long term contracts.

Again, thank you for the opportunity to review and respond to this audit. DNR staff is available for further review as needed by the Audit committee. We look forward to ensuring that the implementation of the improvements suggested in this report are carried out. The support of local agriculture is a priority of the Department and the fundamental mission of one of its statutorily established subdivisions, and DNR supports the implementation of all programs the Legislature have determined should operate to utilize and support such local agriculture.

Sincerely,



Ed Fogels  
Deputy Commissioner

# Agency Response from the Department of Corrections



THE STATE  
of ALASKA  
GOVERNOR BILL WALKER

## Department of Corrections

Commissioners Office

550 W 7<sup>th</sup> Avenue, Suite 1800  
Anchorage, AK 99501-3570  
Main: (907) 269-7397

September 21, 2015

Kris Curtis, CPA, CISA  
Legislative Auditor  
Division of Legislative Audit  
P O Box 113300  
Juneau, AK. 99811-3300

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SEP 22 2015  
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Dear Ms. Curtis,

Thank you for the opportunity to respond to the September 10, 2015 preliminary audit report on: "*Department of Administration (DOA), Division of General Services (DGS), Alaska Agricultural and Fisheries Products Preference – Use by State Entities, July 10, 2015*".

While there are no findings or recommendations for the Department of Corrections (DOC) reflected in the letter, DOC is mentioned in the conclusions and offers the following responses.

*Product availability is the most significant obstacle to purchasing products from Alaska agricultural and fisheries producers.*

The DOC agrees that product availability is the most significant obstacle to purchasing from Alaska producers.

*Alaska agricultural and fisheries products preference is correctly applied in large procurements and the preference is included in wholesaler contracts.*

The DOC currently complies with the requirement to include the Alaska Agricultural and Fisheries Products Preference in any solicitation documents and contractual requirements. DOC will continue to have all procurement staff attend education and training provided by DOA's chief procurement officer to include the preference in food related contracts.

*Food product purchasing records included varying levels of detail depending on the entity, vendor type, and procurement procedure.*

- Do purchasing records specify sales by in-state producers?  
The department agrees that local product purchases are minimal and the purchasing records and are not sufficiently track on these purchasing documents requiring additional manual tracking by DOCs accounting staff.
- Do purchasing records compare prices and was price a major factor in making purchasing decisions?  
This conclusion identified that DOC does apply the seven percent preference to individual Alaska products' prices, and that the preference did not affect the vendor selection decision. The DOC agrees with this conclusion.
- Is there a typical price differential between Alaska agricultural products and out-of-state-products?  
This conclusion identified DOCs procurement records did include a price comparison of Alaskan and out-of-state products. The comparison of 12 comparable agricultural products showed that six in-state products were lower in price after considering shipping and management fees. The DOC agrees with this conclusion.

Sincerely,



RONALD F. TAYLOR  
Commissioner

Alaska Department of Corrections  
550 W 7th Ave Suite 1860 • Anchorage, AK 99501  
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ronald.taylor@alaska.gov

★ CHOOSE RESPECT ★

# Agency Response from the Department of Transportation and Public Facilities



THE STATE  
of ALASKA  
GOVERNOR BILL WALKER

## Department of Transportation and Public Facilities

OFFICE OF THE COMMISSIONER  
Marc Luiken, Commissioner

3132 Channel Drive  
P.O. Box 112500  
Juneau, Alaska 99811-2500  
Main: 907.465.3900  
Fax: 907.586.8365  
dot.state.ak.us

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SEP 28 2015  
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September 21, 2015

Anna Tchernykh, CPA  
Division of Legislative Audit  
P.O. Box 113300  
Juneau, AK 99811-3300

Dear Ms. Tchernykh,

This is in response to the recommendations contained in Confidential Management Letter No.1, Department of Administration (DOA), Division of General Services (DGS), Alaska Agricultural and Fisheries Products Preference dated July 15, 2015. The department has reviewed the report in detail and is in agreement with its conclusions and recommendations.

Sincerely,

A handwritten signature in black ink, appearing to read "Marc Luiken".

Marc Luiken  
Commissioner

*"Keep Alaska Moving through service and infrastructure."*

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# Agency Response from the University of Alaska

James R. Johnsen, Ed.D.  
President  
Butrovich Bldg, Ste. 202, 910 Yukon Drive  
P.O. Box 755000, Fairbanks, AK 99775-5000  
Phone: (907) 450-8000; Fax: (907) 450-8012  
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September 24, 2015

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SEP 24 2015  
LEGISLATIVE AUDIT

Kris Curtis, CPA, CISA  
Legislative Auditor  
Alaska State Legislature  
Division of Legislative Audit  
P.O. Box 113300  
Juneau, AK 99811-3300

Dear Ms. Curtis:

This letter is in response to your September 11, 2015 request for comments on the preliminary audit report titled "Alaska Agricultural and Fisheries Products Preference – Use by State Agencies." We appreciate the effort and professionalism of the work performed by you and your staff on this audit.

**Recommendation for University of Alaska:**

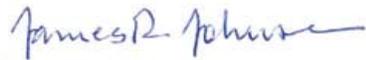
*"UA's Chief Procurement Officer should update UA's procurement policies to include the seven percent Alaska agricultural and fisheries products price preference."*

**University of Alaska's Response to Recommendation:** The University of Alaska agrees with the recommendation and recognizes its responsibility to follow the requirements of the statutes. Due to an inadvertent oversight, the preference was not included in the university's procurement policy which covers the product preferences established under the State Procurement Code (AS 36.30). However, we agree with the principle expressed in AS 36.15.050 and 36.15.060, and we encourage departments to purchase locally.

A policy that incorporates the Alaska Agricultural and Fisheries Product Price Preference (AS 36.15.050 and 36.15.060) is scheduled for submission to the Board of Regents for approval at their December meeting. Upon approval, the standard terms and conditions of the university's solicitations and contracts will be modified in order to bring the university into compliance with the requirements of AS 36.15.050 and 36.15.060.

Thank you for the opportunity to comment. Please contact Nichole Pittman, Chief Audit Executive, at 450-8094 if you have any questions or need to clarify any part of this response.

Sincerely,



James R. Johnsen  
University of Alaska President

cc: Dr. Ashok Roy, UA Vice President for Finance and Administration/CFO  
Jim Lynch, UA Chief Procurement Officer  
Nichole Pittman, UA Chief Audit Executive

*Shaping Alaska's Future*

# Agency Response from the Alaska Railroad Corporation



EXECUTIVE OFFICE  
TELEPHONE: 907.265.2403  
FACSIMILE: 907.265.2312

September 25, 2015

Kris Curtis, CPA, CISA  
Legislative Auditor  
Legislative Budget and Audit Committee  
Division of Legislative Audit  
P.O. Box 113300  
Juneau, AK 99811-3300

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SEP 30 2015  
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Dear Ms. Curtis:

We have reviewed the preliminary audit report regarding the Alaska Agricultural and Fisheries Products Preference – Use by State Entities, July 10, 2015. There were no recommendations regarding the Alaska Railroad Corporation (“ARRC”) in the report. We have no objection to the report’s contents and believe it is accurate with respect to the information relating to ARRC’s food service contract and procurement process with respect to the contract.

Regards,

A handwritten signature in blue ink, appearing to read 'Bill O'Leary'.

Bill O'Leary  
President and Chief Executive Officer  
Alaska Railroad Corporation

327 W. Ship Creek Avenue  
Anchorage, Alaska 99501

MAILING ADDRESS  
P.O. Box 107500 Anchorage, Alaska, 99510-7500

TEL 907.265.2300 FAX 907.265.2416  
AlaskaRailroad.com

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# Legislative Auditor's Additional Comments

## ALASKA STATE LEGISLATURE LEGISLATIVE BUDGET AND AUDIT COMMITTEE



Division of Legislative Audit

P.O. Box 113300  
Juneau, AK 99811-3300  
(907) 465-3830  
FAX (907) 465-2347  
legaudit@akleg.gov

October 8, 2015

Members of the Legislative Budget  
and Audit Committee:

We have reviewed the Department of Administration's response to this audit report. Nothing contained in the response causes us to revise or reconsider the report conclusions and recommendations. The intent of the Alaska agricultural and fisheries products preference is to encourage state entities to use local instead of imported products. However, when applied in procurement only, this preference has an insignificant effect on the vendor selection process.

Sincerely,

A handwritten signature in blue ink, appearing to read "Kris Curtis".

Kris Curtis, CPA, CISA  
Legislative Auditor

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