

SB

160

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

REPORTED OUT
MAY 01 2006
SENATE FINANCE COMMITTEE

DATE: 4/13/05

FURTHER:

DATE TURNED
IN TO OFFICE: 5/1/06

Finance Committee considered

SENATE BILL NO. 160

SB 160 STATE PROCUREMENT ELECTRONIC TOOLS

"An Act relating to a procurement and electronic commerce tools program for state departments and instrumentalities of the state; and providing for an effective date."

and recommends:

- be replaced with CS SB 160 (FIN)
- adopt previous CS Forthcoming
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

CS Senate Bill:
 Same Title
 New Title

SCS House Bill:
 Same Title
 Technical Title Change
 New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Ind.	Zero	FN#
Senate L&C Comm.	4/29/06	650.			

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Ind.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>[Signature]</i>	<input checked="" type="checkbox"/>			
<i>[Signature]</i>			<input checked="" type="checkbox"/>	
<i>[Signature]</i>			<input checked="" type="checkbox"/>	
<i>[Signature]</i>			<input checked="" type="checkbox"/>	
COCHAIR: <i>[Signature]</i>	<input checked="" type="checkbox"/>			
COCHAIR: <i>[Signature]</i>	<input checked="" type="checkbox"/>			

FISCAL NOTE

REPORTED OUT
MAY 01 2006
SENATE FINANCE COMMITTEE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: CS SB 160 (L&C)
 () Publish Date: 4/28/2006

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
 Title State Procurement Electronic Tools BRU _____
 Component _____
 Sponsor Senator Con Bunde
 Requester Senate Finance Committee Component No. _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual	250.0					
Supplies						
Equipment	400.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	650.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
1002 Federal Receipts						
1003 GF Match						
1004 GF	650.0					
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	650.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2006) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

POSITIONS	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The \$400,000 for equipment allows the state to install web purchasing tools throughout the line agencies integrated to coordinate purchasing actions with the state's accounting system. These funds also provide training for use of these tools, and permit programming to customize these tools to meet individual departments' needs.

The \$250,000 in contractual will be used to obtain professional services to construct a statewide, electronic procurement catalog and develop a system of commodity categories or "bundles" by individual vendors that are tied to pricing and distribution agreements. Ensuring thorough catalog content and current marketplace "bundle" development are essential to maximize use of web purchasing tools.

Prepared by: Senator Con Bunde Phone 465-4843
 Division Senate Labor and Commerce Committee Date/Time 4/30/06 2:36 PM
 Approved by: _____ Date 4/29/2006
 Agency _____

ADOPTED

WORK DRAFT

WORK DRAFT

WORK DRAFT

24-LS0524B
Luckhaupt\Bannister
4/30/06

CS FOR SENATE BILL NO. 160()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FOURTH LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): SENATE LABOR AND COMMERCE COMMITTEE

A BILL
FOR AN ACT ENTITLED

1 "An Act relating to a procurement and electronic commerce tools program for state
2 departments and instrumentalities of the state; and providing for an effective date."

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

4 * Section 1. AS 36.30 is amended by adding a new section to article 1 to read:

5 Sec. 36.30.093. State procurement modernization and electronic commerce
6 program. (a) The Department of Administration may enter into a procurement
7 modernization and electronic commerce program under which the Department of
8 Administration contracts with a person from the private sector to provide procurement
9 services and to provide for the delivery and use of electronic commerce tools.
10 Notwithstanding any other provision of this chapter, the contract shall be awarded
11 under AS 36.30.100 - 36.30.190.

12 (b) The Department of Administration should implement the program at a
13 pace that is reasonable for the Department of Administration but that is also
14 expeditious enough to provide a scale of operation that is sufficient to enable the

1 program to be viable.

2 (c) Notwithstanding any other provision of this chapter, all state departments
3 and instrumentalities of the state may participate in the program. A state department or
4 an instrumentality of the state may participate in one or more parts of the program. If a
5 state department or an instrumentality of the state limits its participation to the
6 delivery of the electronic commerce tools, the state department or instrumentality of
7 the state may negotiate, as an amendment to the contract authorized under (a) of this
8 section, a financial arrangement with the program contractor to implement the delivery
9 of the electronic commerce tools.

10 (d) A procurement conducted by the program contractor is not subject to this
11 chapter or to AS 36.15. However, the procurement is subject to (g) and (h) of this
12 section. A procurement conducted by the program contractor may not exceed \$50,000
13 and may only be for

14 (1) goods;

15 (2) services suitable for performing repetitive processes; or

16 (3) a combination of (1) and (2) of this subsection.

17 (e) Whether or not a state department or an instrumentality of the state
18 participates in the parts of the program that provide procurement services, the
19 Department of Administration may make available to state departments or
20 instrumentalities of the state the program elements that save the state departments and
21 instrumentalities of the state money on the cost of goods and services. In this
22 subsection, "elements" includes electronic commerce tools, catalogs on available
23 goods and services, and electronic marketplaces created under the program.

24 (f) The office of management and budget shall establish methods for
25 measuring the savings achieved under the program by a state department or
26 instrumentality of the state that participates in the program. The methods for
27 measuring the efficiency of the services provided by the program contractor and the
28 efficiency of the services provided by employees of the state must be identical.

29 (g) The program contractor shall award a contract based on solicited bids as
30 provided by AS 36.30.170(a) - (f), (h), (j), and (k). A procurement under this
31 subsection is also subject to AS 36.15.010 and 36.15.050 to the extent AS 36.15.010

1 and 36.15.050 are applicable.

2 (h) When awarding a contract under solicited proposals, the program
3 contractor shall consider whether the offeror qualifies as an Alaska bidder, is offering
4 the service of an employment program, or qualifies for a preference under
5 AS 36.30.170(e) or (f). A procurement under this subsection is also subject to an
6 Alaska products preference under AS 36.30.332 - 36.30.338, to a recycled products
7 preference under AS 36.30.337, and to AS 36.15.010 and 36.15.050 to the extent
8 AS 36.15.010 and 36.15.050 are applicable. In this subsection,

9 (1) "Alaska bidder" has the meaning given in AS 36.30.170;

10 (2) "employment program" has the meaning given in AS 36.30.990.

11 (i) In this section,

12 (1) "instrumentality of the state" means a state public corporation, a
13 state enterprise, or another administrative unit of state government that handles its
14 procurement and supply management in a manner that is separate from a department
15 of the state, but does not include a municipality or a municipal school district;

16 (2) "part of the program" means

17 (A) providing procurement services;

18 (B) providing for the delivery of electronic commerce tools,
19 including the creation of electronic marketplaces;

20 (C) providing for the use of electronic commerce tools; or

21 (D) a combination of one or more of the items described in (A)

22 - (C) of this paragraph;

23 (3) "program" means the procurement modernization and electronic
24 commerce program authorized under (a) of this section;

25 (4) "program contractor" means the contractor selected by the
26 department under (a) of this section to manage the program.

27 * Sec. 2. AS 36.30.093(d) is amended to read:

28 (d) A procurement conducted by the program contractor is [NOT] subject to
29 this chapter and [OR] to AS 36.15. [HOWEVER, THE PROCUREMENT IS
30 SUBJECT TO (g) AND (h) OF THIS SECTION.] A procurement conducted by the
31 program contractor may not exceed \$50,000 and may only be for

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- (1) goods;
- (2) services suitable for performing repetitive processes; or
- (3) a combination of (1) and (2) of this subsection.

* Sec. 3. AS 36.30.093(g) and 36.30.093(h) are repealed.

* Sec. 4. Sections 2 and 3, ch. 51, SLA 2003, are repealed.

* Sec. 5. The uncodified law of the State of Alaska is amended by adding a new section to read:

CONTINUATION OF PILOT PROGRAM. The program established by AS 36.30.093, enacted by sec. 1 of this Act, is intended, to the extent consistent with AS 36.30.093, to be a continuation of the pilot program established by sec. 2, ch. 51, SLA 2003.

* Sec. 6. The uncodified law of the State of Alaska is amended by adding a new section to read:

APPLICABILITY. Nothing in this Act affects the validity of actions taken by the Department of Administration under ch. 51, SLA 2003, before the effective date of this section.

* Sec. 7. The uncodified law of the State of Alaska is amended by adding a new section to read:

RETROACTIVITY. Sections 1 and 4 - 6 of this Act are retroactive to July 1, 2006.

* Sec. 8. Sections 1 and 4 - 7 of this Act take effect immediately under AS 01.10.070(c).

* Sec. 9. Sections 2 and 3 of this Act take effect July 1, 2009.

SENATE FINANCE COMMITTEE
5 / 1 / 2006 COMMITTEE ACTION

Bill Number	SB 160		
Amendment	to		
Motion	adopt Version		
<u>Motion by</u>	Bunde		
<u>Objection by</u>	Green		
<u>Removed</u>	✓		
<u>Second Objection by</u>			
<u>Committee Member</u>	Y	<u>Vote</u>	N
Senator Dyson			
Senator Hoffman			
Senator Olson			
Senator Stedman			
Senator Bunde			
Co-Chair Wilken			
Co-Chair Green			
<u>Tally</u>			
Yea			
Nay			
Absent			
<u>MOTION</u>	ADOPTED		

"B" CS

SENATE FINANCE COMMITTEE
5/1/2006 COMMITTEE ACTION

Bill Number	SB 1120 Version "B"		
Amendment			
Motion	to report from Committee		
<u>Motion by</u>	Bunde		
<u>Objection by</u>	Hoffman & Olson		
Removed			
<u>Second Objection by</u>			
<u>Committee Member</u>	<u>Y</u>	<u>Vote</u>	<u>N</u>
Senator Bunde	✓		
Senator Dyson	✓		
Senator Hoffman			✓
Senator Olson			✓
Senator Stedman	✓		
Co-Chair Wilken	✓		
Co-Chair Green	✓		
<u>Tally</u>			
Yea	5		
Nay	2		
Absent			
<u>MOTION</u>	PASSED		

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NUMBER OF PAGES, INCLUDING COVER SHEET: 1

FROM: ROBIN PAUL
SENATE FINANCE CMTE. ASST. SECRETARY
PHONE: 465-2618
FAX: 465-2187

NOTES: Final Please: CS SB 160 (FIN)
of workdraft
CS 24-LS0524\B

Thank You!
Robin

ADOPTED 4/19/05

24-LS0524\C
Bannister
4/18/05

CS FOR SENATE BILL NO. 160()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FOURTH LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): SENATE LABOR AND COMMERCE COMMITTEE

A BILL
FOR AN ACT ENTITLED

1 "An Act relating to a procurement and electronic commerce tools program for state
2 departments and instrumentalities of the state; and providing for an effective date."

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

4 * Section 1. AS 36.30 is amended by adding a new section to article 1 to read:

5 Sec. 36.30.093. State procurement and electronic commerce tools
6 program. (a) The department may enter into a program under which the department
7 contracts with a person from the private sector to provide procurement services and to
8 provide for the delivery and use of electronic commerce tools. Notwithstanding any
9 other provision of this chapter, the contract shall be awarded under AS 36.30.100 -
10 36.30.265, and is not subject to (d) - (u) of this section.

11 (b) Notwithstanding any other provision of this chapter, all state departments
12 and instrumentalities of the state may participate in the program authorized by (a) of
13 this section.

14 (c) A procurement conducted by the person selected under (a) of this section is

1 not subject to this chapter or to AS 36.15. However, the procurement is subject to (d)
2 - (u) of this section.

3 (d) A contract based on solicited bids shall be awarded to the lowest
4 responsive and responsible bidder after an Alaska bidder preference of five percent
5 has been applied for evaluation purposes.

6 (e) If a bidder qualifies as an Alaska bidder and is offering services through an
7 employment program, a 15 percent cost preference shall be applied during evaluation.

8 (f) If a bidder is an Alaska bidder and is a qualifying entity, a 10 percent cost
9 preference shall be applied during evaluation.

10 (g) If a bidder is an Alaska bidder and if 50 percent or more of the bidder's
11 employees at the time the bid is submitted are persons with disabilities, a 10 percent
12 cost preference shall be applied during evaluation. The contract must contain a
13 promise by the bidder that the percentage of the bidder's employees who are persons
14 with disabilities will remain at 50 percent or more during the contract term.

15 (h) Insurance-related contracts shall be awarded to the lowest responsive and
16 responsible bidder after an Alaska bidder preference of five percent has been applied
17 during evaluation. In this subsection, "Alaska bidder" means a person who is an
18 Alaska bidder and an Alaska domestic insurer.

19 (i) Alaska products shall be used whenever practicable. Recycled Alaska
20 products shall be used when they are of comparable quality, of equivalent price, and
21 appropriate for the intended use.

22 (j) If a bid indicates that the product being purchased will be a recycled Alaska
23 product, a cost preference of five percent shall be applied during evaluation.

24 (k) In a project financed by state money in which the use of timber, lumber,
25 and manufactured lumber products is required, only timber, lumber, and manufactured
26 lumber products originating in this state from local forests shall be used wherever
27 practicable.

28 (l) When agricultural products are purchased, a seven percent cost preference
29 shall be applied during evaluation to agricultural products harvested in the state.

30 (m) When fisheries products are purchased, a seven percent cost preference
31 shall be applied during evaluation to fisheries products harvested or processed within

1 the jurisdiction of the state.

2 (n) If a bid or offer designates the use of an Alaska product that is identified in
3 the contract specifications and designated as a Class I, Class II, or Class III state
4 product under AS 36.30.332, a cost preference equal to the percentage established for
5 the class under AS 36.30.332(c) shall be applied to the product during evaluation. The
6 program contractor shall use the Alaska product preference list, as described in
7 regulations of the department, as the basis for establishing the percentage of Alaska
8 product preference.

9 (o) If a contractor designates the use of an Alaska product in a bid or proposal
10 and fails to use the designated product for a reason within the contractor's control,
11 each payment under the contract shall be reduced according to the schedule in
12 AS 36.30.330(a).

13 (p) Except as provided under (q) of this section, all preferences are cumulative
14 and shall be applied in the order referenced under (d) - (q) of this section.

15 (q) A bidder may not receive a preference under this section under both (d)
16 and (e) 'd) and (f), or (e) and (f) for the same contract.

17 (r) In order to qualify for a preference under (e), (f), or (g) of this section, a
18 bidder shall add value by actually performing, controlling, managing, and supervising
19 the services provided, or a bidder shall have sold supplies of the general nature
20 solicited to another agency, to another government, or to the general public.

21 (s) When awarding a contract under competitive sealed proposals, the program
22 contractor shall consider the preferences described in this section. Applicable
23 preferences shall be applied solely to the cost portion of the proposals during
24 evaluation.

25 (t) Informal procurements conducted by the program contractor are subject to
26 the preferences described in this section.

27 (u) In this section,

28 (1) "agency" has the meaning given in AS 36.30.990;

29 (2) "agricultural products" has the meaning given in AS 36.15.050(g);

30 (3) "Alaska bidder" has the meaning given in AS 36.30.170(b);

31 (4) "Alaska product" has the meaning given in AS 36.30.338;

- 1 (5) "contract" has the meaning given in AS 36.30.990;
- 2 (6) "employment program" has the meaning given in AS 36.30.990;
- 3 (7) "instrumentalities of the state" means a state public corporation, a
- 4 state enterprise, or another administrative unit of state government that handles its
- 5 procurement and supply management in a manner that is separate from a department
- 6 of the state;
- 7 (8) "qualifying entity" has the meaning given in AS 36.30.170(c);
- 8 (9) "person" has the meaning given in AS 36.30.990;
- 9 (10) "person with a disability" has the meaning given in AS 36.30.170;
- 10 (11) "program contractor" means the contractor selected by the
- 11 department to manage the program;
- 12 (12) "recycled Alaska product" has the meaning given in
- 13 AS 36.30.338.

14 * Sec. 2. Sections 2 and 3, ch. 51, SLA 2003, are repealed.

15 * Sec. 3. The uncodified law of the State of Alaska is amended by adding a new section to

16

17 APPLICABILITY. Nothing in this Act affects the validity of actions taken by the

18 Department of Administration under ch. 51, SLA 2003, before the effective date of this Act.

19 * Sec. 4. This Act takes effect immediately under AS 01.10.070(c).

*distributed
but Not offered*

WORK DRAFT

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24-LS0524AN
Bannister
4/29/06

CS FOR SENATE BILL NO. 160()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FOURTH LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): SENATE LABOR AND COMMERCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to a procurement and electronic commerce tools program for state
2 departments and instrumentalities of the state; and providing for an effective date."

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

4 * Section 1. AS 36.30 is amended by adding a new section to article 1 to read:

5 Sec. 36.30.093. State procurement modernization and electronic commerce
6 program. (a) The Department of Administration may enter into a procurement
7 modernization and electronic commerce program under which the Department of
8 Administration contracts with a person from the private sector to provide procurement
9 services and to provide for the delivery and use of electronic commerce tools.
10 Notwithstanding any other provision of this chapter, the contract shall be awarded
11 under AS 36.30.100 - 36.30.190.

12 (b) The Department of Administration shall implement the program at a pace
13 that is reasonable for the Department of Administration but that is also expeditious
14 enough to provide a scale of operation that is sufficient to enable the program to be

1 viable.

2 (c) Notwithstanding any other provision of this chapter, all state departments
3 and instrumentalities of the state may participate in the program. A state department or
4 an instrumentality of the state may participate in one or more parts of the program. If a
5 state department or an instrumentality of the state limits its participation in the
6 electronic commerce tools part of the program to the delivery of the electronic
7 commerce tools, the state department or instrumentality of the state may negotiate, as
8 an amendment to the contract authorized under (a) of this section, a financial
9 arrangement with the program contractor to implement the delivery of the electronic
10 commerce tools.

11 (d) A procurement conducted by the program contractor is not subject to this
12 chapter or to AS 36.15. However, the procurement is subject to (g) and (h) of this
13 section. A procurement conducted by the program contractor may not exceed \$50,000
14 and may only be for

15 (1) goods;

16 (2) services suitable for performing repetitive processes; or

17 (3) a combination of (1) and (2) of this subsection.

18 (e) Whether or not a state department or an instrumentality of the state
19 participates in the parts of the program that provide procurement services or the use of
20 electronic commerce tools, the Department of Administration shall make available to
21 state departments or instrumentalities of the state the program elements that save the
22 state departments and instrumentalities of the state money on the cost of procuring
23 goods and services. In this subsection, "elements" includes electronic commerce tools,
24 catalogs on available goods and services, and electronic marketplaces created under
25 the program.

26 (f) The office of management and budget shall establish methods for
27 measuring the savings achieved under the program by a state department or
28 instrumentality of the state that participates in the program. The methods for
29 measuring the efficiency of the services provided by the program contractor and the
30 efficiency of the services provided by employees of the state must be identical.

31 (g) The program contractor shall award a contract based on solicited bids as

1 provided by AS 36.30.170(a) - (f), (h), (j), and (k). A procurement under this
2 subsection is also subject to AS 36.15.010 and 36.15.050 to the extent AS 36.15.010
3 and 36.15.050 are applicable.

4 (h) When awarding a contract under solicited proposals, the program
5 contractor shall consider whether the offeror qualifies as an Alaska bidder, is offering
6 the service of an employment program, or qualifies for a preference under
7 AS 36.30.170(e) or (f). A procurement under this subsection is also subject to an
8 Alaska products preference under AS 36.30.332 - 36.30.338, to a recycled products
9 preference under AS 36.30.337, and to AS 36.15.010 and 36.15.050 to the extent
10 AS 36.15.010 and 36.15.050 are applicable. In this subsection,

11 (1) "Alaska bidder" has the meaning given in AS 36.30.170;

12 (2) "employment program" has the meaning given in AS 36.30.990.

13 (i) In this section,

14 (1) "instrumentality of the state" means a state public corporation, a
15 state enterprise, or another administrative unit of state government that handles its
16 procurement and supply management in a manner that is separate from a department
17 of the state, but does not include a municipality or a municipal school district;

18 (2) "part of the program" means

19 (A) providing procurement services;

20 (B) providing for the delivery of electronic commerce tools,
21 including the creation of electronic marketplaces;

22 (C) providing for the use of electronic commerce tools; or

23 (D) a combination of one or more of the items described in (A)
24 - (C) of this paragraph;

25 (3) "program" means the procurement modernization and electronic
26 commerce program authorized under (a) of this section;

27 (4) "program contractor" means the contractor selected by the
28 department under (a) of this section to manage the program.

29 * Sec. 2. AS 36.30.093(d) is amended to read:

30 (d) A procurement conducted by the program contractor is [NOT] subject to
31 this chapter and [OR] to AS 36.15. [HOWEVER, THE PROCUREMENT IS

1 SUBJECT TO (g) AND (h) OF THIS SECTION.] A procurement conducted by the
2 program contractor may not exceed \$50,000 and may only be for

3 (1) goods;

4 (2) services suitable for performing repetitive processes; or

5 (3) a combination of (1) and (2) of this subsection.

6 * Sec. 3. AS 36.30.093(g) and 36.30.093(h) are repealed.

7 * Sec. 4. Sections 2 and 3, ch. 51, SLA 2003, are repealed.

8 * Sec. 5. The uncodified law of the State of Alaska is amended by adding a new section to
9 read:

10 CONTINUATION OF PILOT PROGRAM. The program established by
11 AS 36.30.093, enacted by sec. 1 of this Act, is intended, to the extent consistent with
12 AS 36.30.093, to be a continuation of the pilot program established by sec. 2, ch. 51, SLA
13 2003.

14 * Sec. 6. The uncodified law of the State of Alaska is amended by adding a new section to
15 read:

16 APPLICABILITY. Nothing in this Act affects the validity of actions taken by the
17 Department of Administration under ch. 51, SLA 2003, before the effective date of this Act.

18 * Sec. 7. The uncodified law of the State of Alaska is amended by adding a new section to
19 read:

20 RETROACTIVITY. Sections 1 and 4 - 6 of this Act are retroactive to July 1, 2006.

21 * Sec. 8. Sections 1 and 4 - 7 of this Act take effect immediately under AS 01.10.070(c).

22 * Sec. 9. Sections 2 and 3 of this Act take effect July 1, 2009.

not offered

AMENDMENT

OFFERED IN THE SENATE

By Senator Fred Dyson

To: CSSB160(L&C) (24-LS0224\X)

1 Page 4, Lines 24: Insert new subsection to read:

2 (q) Should the person selected under (a) of this section become unable to
3 perform the services set forth hereunder because of:

4 (1) financial insolvency

5 (A) contractor shall surrender the electronic commerce
6 system to the state at no cost to the state,

7 (B) contractor shall surrender all related data bases,
8 procedure manuals, and vendor contact information to the state at no cost to
9 the state,

10 (C) contractor's personnel, selected by the state and at
11 the option of the state, shall be offered employment with the State of Alaska,
12 and

13 (D) contractor shall train key personnel of the state on
14 the use of the electronic commerce system;

15 (2) failure to meet mutually agreed levels of performance the
16 contractor shall be given ninety days to achieve such levels. If at the end of
17 ninety days the contractor still fails to meet mutually agreed levels of
18 performance

19 (A) contractor shall surrender the electronic commerce
20 system, along with all associated data bases, and procedure manuals to the

1 state at a cost to be negotiated prior to award of the contract contemplated
2 hereunder,
3 (B) contractor shall provide to the state, at no cost to the
4 state, full contact information for all vendors utilized by the contractor in
5 support of the state's procurement operations,
6 (C) contractor's personnel, selected by the state and at
7 the option of the state, shall be offered employment with the State of Alaska,
8 and
9 (D) contractor shall train key state personnel on the use
10 of the electronic commerce system.

Alaska State Legislature

DURING SESSION
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E-MAIL
Senator.Con.Bunde@legis.state.ak.us

SENATOR CON BUNDE

District P

VICE-CHAIR: SENATE FINANCE COMMITTEE
CHAIR: SENATE LABOR & COMMERCE COMMITTEE

CS for SB 160 Sponsor Statement

The pilot procurement program is in its third year of authorization and is facing a sunset date of June 30, 2006 unless the Legislature acts to extend it. This bill extends the program's exemption from some elements of the procurement code by three years, narrows the scope of that exemption and provides broader access to modern web-based e-Commerce tools across state government. Any decision to continue the program is at the sole discretion of the state.

Even though the "pilot" program has not been given adequate scale to demonstrate its true potential, it is clear from a number of performance measures that the private sector contractor has implemented a successful program. Office productivity levels are measurably higher, time required to process transactions has fallen and, notably, use of Alaska vendors has risen sharply.

A pilot program is meant to result in "lessons learned" that are then used to expand wisely. This bill draws from those lessons learned by narrowing the scope of the program in some very important ways, while expanding the electronic commerce elements.

The Administration and the program contractor concur that senior state procurement officers should be retained and that the private sector operation should be limited primarily to the purchase of goods under \$50,000. Under this bill, procurements over \$50,000 and most contracts for services will be handled by state procurement personnel.

The benefit of this change is that it respects and retains the institutional knowledge of trained state procurement officers. The private sector contractor will now specialize in repetitive operations that best lend themselves to automation and productivity management.

Those Departments that are not participating in the operational elements of the program gain access to web based e-Commerce tools. State procurement specialists will be able to use these tools as well. This will create an environment whereby private sector operational performance can be benchmarked accurately against public sector performance.

Under this new committee substitute, competitive bids by the contractor would be subject to the Alaska bidder preferences, disabled persons preference, the Forest Products and Agricultural/Fisheries Products preferences, and the Recycled Alaska Products provisions in the state procurement code.

Section 9 of the CS requires any contractor providing procurement services under this bill shall be fully subject to the procurement code beginning July 1, 2009.



Alaska State Legislature

Senator Con Bunde
Senate District P

Vice Chair: Senate Finance Committee
Chair: Senate Labor & Commerce Committee

SB 160 State Procurement Electronic Tools Sponsor Statement

Although Alaska is currently enjoying a temporary revenue windfall, it is very important that the Legislature remain focused on the need to deliver long-term reductions in the cost of government. Therefore, this bill renames, expands and extends the pilot procurement, eCommerce and supply chain management program authorized by HB 313 in the 2003 Legislative Session. It will now be called the "Supply Chain Modernization Program".

The program is already delivering savings in the cost of overhead and administration. During the first two years, it is expected to save over \$150,000 in overhead administration costs, even though it has been implemented in only one region of one agency (DOT/PF). It needs to be expanded and extended in order to reach its full potential.

Overhead costs represent a significant portion of the total cost of government. However, the State of Alaska generally performs overhead functions using outmoded tools and methods. Private industry has delivered considerable gains in productivity during the past two decades by contracting out back-office functions to specialist firms and installing modern computer-based systems. It is time that State government embraces these techniques and participates more fully in the U.S. productivity boom.

As funds previously used for overhead administration are saved, they will be available to fund programs such as education, public safety and other programs of direct importance to a broad range of Alaska residents.

The prices the State pays for goods and services can also be reduced by this program. Cataloging goods and services, combining volumes across multiple agencies, streamlining and automating repetitive processes and allowing for greater staff specialization, can gradually obtain better pricing.

By adopting this bill the Legislature will be directing the Administration to implement the Supply Chain Modernization Program in a timely and orderly manner.

Senate Bill: 160

Short Title: State Procurement Electronic Tools

Sponsor: Senate Labor and Commerce Committee

Current Version: SB 160

Contact: Jane Alberts 465-4843

Summary:

- While Alaska is currently enjoying a temporary revenue windfall, it is very important that the Legislature remain focused on the need to deliver long-term reductions in the cost of government. Therefore, this bill renames, expands and extends the pilot procurement, eCommerce and supply chain management program. It will now be called the Procurement Modernization Program.
- The program is already delivering savings in the cost of overhead and administration. It needs to be expanded and extended in order to reach its full potential.
- Overhead and administration costs represent a significant portion of the total cost of government, but the State of Alaska generally performs this type of work using outmoded tools and methods. Private industry has delivered considerable gains in productivity during the past two decades by contracting overhead functions out to specialist firms and installing modern computer based systems. It is time that State government embrace these techniques and participate more fully in the U.S. productivity boom.

Benefits:

The Supply Chain Modernization Program (SCMP) is expected to deliver the following benefits when fully implemented:

- Annual savings in the costs of goods and services ranging from \$5 million to \$25 million, across the 14 primary state agencies.
- Internet e-Commerce tools that speed up the requisitioning and purchasing process.
- Greater inter-Departmental coordination in purchasing, storage and logistics.

Background:

- In the 2003 Legislative Session, House Bill 313 authorized a pilot procurement and Internet e-Commerce program. The program had an initial authorization period of three years, and a limit of two agencies and two other state instrumentalities.
- The Administration chose the Department of Transportation and Public Facilities (DOT/PF), Southeast Region (SER), for the pilot agency. It took a full year to issue an RFP, complete the selection process and get a contractor in place to begin operations. The contractor was selected through a competitive RFP process. There are now less than 16 months left on the pilot program authorization period.
- The contractor has been performing procurement for DOT/PF SER since last July, and warehouse operations since October.
- A full suite in Internet eCommerce tools have been installed and are functioning. The first Internet eCommerce PO ever issued by the State of Alaska went out in October of last year. Since then, over 2000 Internet PO's have been issued and over 2000 requisitions created. An electronic catalog of nearly 5000 items has been created, the first major catalog effort in the State's history.
- Use of an electronic catalog is very important for long term cost savings, as it allows the State of Alaska to track the frequencies quantities of purchases, prices paid, and other critical data. These data will help the State develop better agreements with vendors.
- A recent audit report on the first quarter of fiscal 2005 (the first quarter of program procurement operation) shows that no discernable change in the likelihood of purchasing from Alaska businesses.
- Cost savings on administrative salaries and benefits burden are currently projected to exceed \$150,000 for the two year contract period. This represents a savings on procurement administration staff of over 20%.
- Cost savings on goods and services will evolve over time as the program matures, other regions and agencies are added, and the resulting volume purchasing opportunities can be obtained.

Letters of Support

Suzanne Mullen

From: Randy Nickerson [randynickerson@gci.net]
Sent: Tuesday, April 12, 2005 11:49 AM
To: Sen. Con Bunde
Subject: Senate Bill 160

Importance: High

Sir,

As an Alaskan who has served in the military for 22 years and now as a private citizen working in the private sector, I have seen the benefits of using the private sector to save time, money, and resources (especially those from the taxpayer).

Using private industry to procure and maintain operational inventories has shown to be a positive performance issue. The public has been served very well by using private enterprise to find ways to pare down operational expenses and reduce inventory costs.

Our governor wants us to get our fiscal house in order and I cannot think of an easier step than using private industry to help us get there. The lumbering overhead of public bureaucracy has shown time and again to be expensive and has never saved money in any serious effort to improve the process long term. Private enterprise knows the value of a dollar and squeezes every one to get the most out of it.

Our economy is starting to improve steadily. To maintain that progress, I need your help in helping our state continue on that path. Putting "procurement" in the hands of professionals instead of career bureaucrats is a step in that direction. Improvements like these can help us "get our fiscal house in order." With the savings drawn from programs like these, everyone in the state can benefit. It also shows you are sticking to your campaign promises of being stewards of our tax dollars.

Another benefit I will personally benefit from is the potential savings can be directed to educational programs for our young people. My family has used the public school system in Anchorage and will continue to use it via the University of Alaska - Anchorage.

As a member of the US Air Force I saw government waste first hand. I also saw serious efforts during my career to save money and use the precious resources for what is really important. I would like your support for the expansion of the Procurement Pilot program in a serious effort to modernize our state and to our state resources in a way that benefits everyone, public and private. I would like you to support this legislation and please encourage your esteemed colleagues across the aisle to see my, and hopefully, your view.

Suzanne Mullen

From: Kris Oldenburg [oldenburgk@yahoo.com]
Sent: Tuesday, April 12, 2005 11:43 AM
To: Sen. Con Bunde
Subject: Senate Bill 160, Procurement Pilot Expansion - Yes

Senator Bunde,

I just wanted to express my support for Senate Bill 160.

I think it is good policy to contract out administrative functions that can save the state money. Changes like this will help to delay the need for new taxes, which is very important to my family and me. I believe that this bill will also help to demonstrate responsible public sector spending habits.

I am hoping that you will support this initiative.

Regards,

Kris L Oldenburg
Anchorage, AK

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Yahoo! Small Business - Try our new resources site!
<http://smallbusiness.yahoo.com/resources/>

Suzanne Mullen

From: Rumley, Patrick [PVT] [patrick.rumley@smithbarney.com]
Sent: Tuesday, April 12, 2005 11:38 AM
To: Sen. Con Bunde
Subject: Alaska Supply Chain Integrators

Dear Senator Bunde:

I have followed with interest the progress of the pilot procurement program recently initiated by the state of Alaska with assistance from Alaska Supply Chain Integrators. I consider myself a moderate with the view that government has an important role to play in promoting a positive business environment as well as providing for basic human services in the area of law enforcement and basic welfare benefits for the disadvantaged. I believe that it is prudent for the state to look for ways to reduce the overhead cost of government in order that critical substantive government functions are not shortchanged. The pilot program offers realistic hope that the heavy costs associated with bureaucratic systems might be reduced, particularly if the program were extended and expanded beyond its present scope.

I ask you to support the extension and expansion of this program and encourage others on your committee to do the same.

Sincerely,

Patrick Rumley
907-263-5731

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Do not use e-mail to send us confidential information such as credit card numbers, changes of address, PIN numbers, passwords, or other important information.
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Suzanne Mullen

From: Scott [sjcwizard@yahoo.com]
Sent: Tuesday, April 12, 2005 11:35 AM
To: Sen. Con Bunde
Subject: Senate Bill 160 - Expanding Procurement Pilot - YES!

Senator Bunde -

As an Alaskan concerned with the responsible fiscal management of our state resources I want to express my support for Senate Bill 160.

I have yet to see the public sector do anything more efficiently or cost effectively than the private sector, given the public sectors lack of motivation or incentive to have efficiency or cost effectiveness it's primary goal.

Given the private sector's incentives of profit and competition, every service that we can have competitively bid and contracted out should be considered, in my opinion, and the procurement processes are a great place to continue expanding!

I hope you see thing in the same vein, and will support Senate Bill 160.

Sincerely,
Scott J. Chertkow

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Tired of spam? Yahoo! Mail has the best spam protection around
<http://mail.yahoo.com>

Suzanne Mullen

From: Nandagopal Nair [nandagopalnair@yahoo.com]
Sent: Tuesday, April 12, 2005 11:29 AM
To: Sen. Con Bunde
Subject: Senate Bill 160

Senator Con Bunde -

I just wanted to express my support for Senate Bill 160.

I think it is good policy to contract out administrative functions, delay the need for new taxes, and demonstrate public sector responsible spending habits.

I am hoping that you will support this initiative.

Regards,
Nandu Nair

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State of Alaska

Frank Murkowski, Governor

Office of Management and Budget

CONTRACT COMPLIANCE FOR DOT/PF PROCUREMENT PILOT

OBJECTIVES AND METHODOLOGY

Objectives:

The purpose of this review is to respond to the Alaska Public Employees Association (APEA) request for a contract compliance audit of State of Alaska contract number 2004-9900-4556. This contract was for a pilot project of procurement services. Specific items for review were identified through conversations with the state Contracting Manager, the state Division of Labor Relations and APEA's business manager. A brief history of the project is also offered to provide the contextual framework under which the project and contract compliance were evaluated. The information provided in this document is intended to supplement the information supplied by the State of Alaska Division of General Services' Contract Administrator's audit of the pilot project.

Methodology:

Several documents were reviewed to obtain information related to the legislative intent and parameters of the project and to ascertain the methods by which the SOA developed contract specifications. These documents included:

1. The legislation authorizing the pilot project, HB 313;
2. An operational study of the Department of Transportation and Public Facilities (DOT/PF) procurement and warehouse functions in the Southeast Region;
3. The state request for proposals (RFP);
4. The contractor's proposal, including follow-up explanations, clarifications and last best offer.
5. The contract, including amendments and appendices; and,
6. The methodology for and outcome of the SOA's feasibility study.

After review of the documents described above, the following audit steps were performed to assess the degree to which Alaska Supply Chain Integrators (ASCI) complied with contractual specifications:

1. The universe of payments to ASCI was identified through review of payment records retained on the State of Alaska Accounting System (AKSAS). For each of the payments in AKSAS, invoices were reviewed to determine whether the payment and invoice amounts matched and whether the invoice amount was within contractual specifications.
2. The State of Alaska has delivered one letter of deficiency to ASCI. This letter, the contractor's response, and the state Contract Administrator's reply to the response were reviewed.
3. Formal complaints related to the project include two letters and one e-mail. These and the contractor's responses to each have been reviewed.

BACKGROUND INFORMATION

In an effort to contain the costs of state procurement, the 2003 Legislature passed HB 313. The bill, which became effective July 1, 2003, authorized a pilot program allowing the state to contract with a private enterprise to deliver procurement services, supply chain management, and to provide electronic commerce tools. The bill also established parameters for the pilot project:

(a) The Department of Administration may enter into a pilot program under which the department contracts with a person from the private sector to provide for the delivery of procurement services and electronic commerce tools. The contract shall be awarded in accordance with competitive bidding procedures outlined in AS 36.30.

(b) The pilot program authorized by (a) of this section may not apply to more than two state departments and two other instrumentalities of the state and may not exceed three years in length.

State of Alaska managers subsequently selected the Southeast region of the Department of Transportation and Public Facilities (DOT/PF) procurement and warehouse as the initial pilot participant. These divisions of DOT/PF's Southeast Region were charged with providing procurement, contract administration, warehouse inventory management, commodity and equipment distribution and physical property management functions DOT/PF divisions located in Southeast Alaska, including the Alaska Marine Highways System (AMHS).

An operational study of the Southeast Region revealed that the procurement pilot as initially envisioned would affect twelve positions. Subsequently, one of these positions, the Contract Administrator, was relocated from DOT/PF to the

Department of Administration to oversee the pilot project and a mail services courier position was removed from the pilot project. After these modifications, ten state employee positions were eliminated through the pilot project.

In November 2003, the State of Alaska issued request for proposals (RFP) number 2004-9900-4556, entitled Procurement Services, Supply Chain Management and Electronic Commerce Tools. The RFP contained copies of the authorizing legislation, the operational study, and DOT/PF equipment lists and contracts as well as standard contract information. Two proposals were received in response to the RFP. One of these was considered nonresponsive; the other bidder, ASCI, proposed total contract costs of \$950,973, which would include implementation fees, the assumption of procurement duties on July 1, 2004 and the assumption of warehouse duties by October 1, 2004.

Combined information from the operational study and the bid formed the basis for a feasibility study to determine whether the pilot project would result in cost savings. Based on the results of the operational study, state employee labor costs of the warehouse and procurement functions for the Southeast region for fiscal years 05 and 06 were estimated at \$1,219,401. When compared to the \$950,973 total costs proposed by ASCI, the pilot project showed potential cost savings of at least \$268,428. Other savings related overhead costs and the release of warehouse and office space were also anticipated. Based on the results of the feasibility study, the contract was awarded to ASCI on March 19, 2004.

SUMMARY OF CONCLUSIONS

- Payments to contractor comply with contracted amounts
Monthly amounts paid to ASCI have been in accordance with the contract budget and contract amendments. These payments include negotiated amounts for implementation costs, procurement, and warehouse operations.
- Warehouse non-closure reduces potential savings
Although closure of the Seven-Mile warehouse was initially envisioned as a cost cutting measure, consideration is being given to keeping the warehouse open indefinitely. The contractor's current proposal for warehouse retention would reduce the projected cost savings from \$268,428 to \$165,417 over the two-year course of the project. As of February 15, 2005, the SOA had not accepted this proposal.
- Contractor responded satisfactorily to one letter of deficiency
The State of Alaska has issued one letter of deficiency that sought information about several apparently unmet contractual obligations. Although some of the items required only an information update from the contractor, others required specific action plans including extended timelines and other actions. For those areas that required some action other

than increased communication, the State of Alaska has accepted as adequate the contractor's explanations and proposed solutions.

- The contractor has addressed other significant complaints
The contractor has received three formal complaints related to the procurement pilot. Two of these were from within the state system; one was from a potential vendor. ASCI responded to each of these complaints by either providing the complainants with additional information or by offering remedies for the complaint. One of the complaints, related to purchase order processing, remains unresolved.

DISCUSSION OF CONCLUSIONS

Payments to contractor comply with contracted amounts

Since the inception of the project, ASCI has submitted eight invoices. The invoices comply with contractual specifications in both their timing and in their amounts. Billings for each month have complied with provisions of the contractor's budget, which was incorporated into the contract, or to amendments or appendices to the contract. As shown in Table 1 on the next page, these invoices include charges for services related to implementation costs, procurement functions, and warehouse operations.

Appendix D of the contract specifies conditions for the payment of contract implementation costs. Under the specifications, implementation fees of \$59,343 are to be absorbed by the State of Alaska, with a \$6,594 payment in June 2004. The contract further specifies:

The final payment of \$52,749 for ASCI's implementation costs will be made approximately 180 calendar days after final contract award, and after the full deployment of e-commerce tools and systems, including training for state employees, and complete assumption of all work under the scope of services.¹

The State of Alaska Contract Administrator has received an invoice for the remainder of the implementation costs, \$52,749. As of February 15, 2005, this payment had not yet been approved, as some training for State of Alaska Ketchikan staff remains outstanding. The projected date for completion of that training is February 2005.

Invoices and payments for the months of July and October through December were in the amounts specified in the contract budget. August and September invoices, however, included the costs of a materials handler for the Seven-Mile warehouse. The original contract specified that ASCI would acquire warehouse duties on October 1, but because the incumbent employee left the position in August, ASCI actually assumed those duties earlier than originally planned.

¹ Agency Contract Number 2004-9900-4556, Appendix D: Payment Provisions
Office of Management and Budget, 02/18/05

Under contract amendment number 2, a materials handler was paid an hourly wage for hours up to 37.5 hours per week from August 16 through September 30. The costs associated with this employee, which were supported by timesheets, were billed as part of the contract for August and September 2004. In October, ASCI assumed full warehouse duties as planned and billed for those services as specified in the original contract budget.

Table 1: Contract Payments, Inception through February 15, 2005

Date	Description and Charges for Services			Total	Authorization
	Implementation	Warehouse	Procurement		
8/26/2004	\$6,594			6,594	Appendix D
9/27/2004			38,334	38,334	Contract Budget
10/5/2004		2,015	36,524	38,539	Amendment #2,
11/5/2004		3,616	36,524	40,140	Contract Budget
11/26/2004		12,601	36,523	49,124	Contract Budget
1/6/2005		12,601	37,159	49,760	Contract Budget
1/19/2005		12,601	31,757	44,358	Contract Budget
Total Costs	\$6,594	\$43,434	\$216,821	\$ 266,849	Contract Budget

Warehouse non-closure reduces projected savings

In the initial contract proposal, ASCI had suggested closing the 7-Mile warehouse effective February 1, 2005. The assumption of warehouse duties by ASCI and the subsequent warehouse closure was projected to save the State of Alaska \$151,563 in personal services costs.

Although the contract proposal was aimed at warehouse closure, the following note was appended to the warehouse closure discussion:

Note: If for some reason the elimination of stocking functions and facilities and reallocation of other warehouse duties to a subcontractor is not acceptable to the state for reasons of which ASCI is unaware, then we are willing to reconsider this position in light of new information.²

Since the assumption of the warehousing duties in mid-August 2004, the contractor has re-evaluated its position on warehouse closure. ASCI has found that a combination of material lead times for supplies, the actual work activity at the warehouse, and a general lack of support for the closure from key Alaska Marine Highway System managers render the closure inadvisable at this time.

ASCI has now recommended retaining the warehouse but reducing the amount of inventory in the warehouse. This proposal requires retaining two full-time staff positions and the addition of a part-time seasonal warehouse assistant. The initial proposal, which is currently being negotiated, would increase contractual costs by \$103,011. The increased contractual costs will reduce the projected labor costs savings of the procurement pilot project from \$268,428 to \$165,417. It is important to note that, as of February 15, 2005, the cost

² Response to State of Alaska a Request for Proposal Number 2004-9900-4556, p. 51. Office of Management and Budget, 02/18/05

proposal for keeping the warehouse open had not been approved. The actual costs and the related cost savings of the pilot project may, in the final version, differ from this proposal.

Contractor responded satisfactorily to letter of deficiency

From the inception of the project until February 15, 2005, the State of Alaska Contract Administrator has issued one letter of deficiency. Primarily the letter requested information about the status of several contract milestones. ASCI responded with information that indicated most of the milestones had been met. Although some of the elements of the implementation schedule took longer than initially planned, the major milestones such as assumption of procurement and warehouse duties were met as scheduled.

For those tasks that had not been accomplished by their initial target dates, the contractor requested extended deadlines or offered explanations or alternative plans. Items that were delayed or deferred did not result in additional costs to the State of Alaska and, in general, the state accepted ASCI's responses to the inquiries and did not require a specific cure for any of the items.

Some of the items specified in the letter of deficiency had not been entirely resolved by February 15, 2005, but the State of Alaska Contract Administrator has accepted the contractor's proposed resolution and anticipated resolution dates. These unresolved items and the proposed resolutions are summarized in Table 2.

One of the unresolved items involves ASCI's use of their members as suppliers. The contract prohibits such activity: "Neither the contractor nor its employees shall be a third-party contractor, distributor, supplier, or vendor for any suppliers or service acquired on behalf of the state." In a February 9, 2004 letter, the contractor later clarified this prohibition: "...ASCI partners and employees will not participate as suppliers to the State under any procurement actions conducted by ASCI under this program." The letter of deficiency identified several purchases from ASCI members. In their response to the letter of deficiency, the contractor agreed that these occurrences represented "process nonconformances" and committed to additional staff training. ASCI also suggested the following addition to contract language:

Establish a referral policy to a State official when such a procurement appears to be in the best interest of the State. There are cases that arise whereby an ASCI LLC member holds a manufacturer distributorship that makes it inconvenient and/or more costly for the State to purchase the item elsewhere. ASCI proposes that, in these cases, the procurement be referred to the SOA contract administrator responsible for the ASCI contract, along with the information gathered, and request that the SOA contract administrator evaluate the case, make the determination and the ultimate procurement.

The State of Alaska Contract Administrator responded to the proposed addition:

The state will consider instances when it may be in the state's best interest to contract with ASCI LLC members. However, if approved by the state - ASCI would conduct the procurement. Also, if approved, the state will issue an amendment to the contract which will include a procedure to process the subject procurements. This is another topic we should discuss at the next monthly meeting.

Since this discussion, several more purchases from ASCI members have been made without prior consultation with the State of Alaska Contract Administrator. Contract amendment and additional training of ASCI staff may be necessary to resolve these ongoing issues.

Table 2: Status of Outstanding Contract Items as of February 15, 2005

Item	Proposed Resolution	Estimated Resolution Date	Comments
Staff Training	Training sessions for SOA Ketchikan users	February, 2005	Training of these staff members is behind schedule mostly due to leave schedules of the SOA staff.
Conflict of Interest	Additional training for ASCI staff	Unknown	Episodes of buying from ASCI LLC vendors are isolated and have been for immaterial amounts, but seem to be recurring. Such purchases may be acceptable, but require SOA pre-authorization.
Benchmarks and metrics	Develop initial metrics and benchmarks	December 31, 2005	Initial benchmarks were posted to Smart Measures on February 11, 2005.

Contractor has responded to other significant complaints

The State of Alaska and the contractor have received three other complaints not directly related to contract compliance. Of these, two came from within the state system; one was from a potential vendor. In each case, as detailed below, the contractor responded to the complaints, and where possible, proposed solutions.

1. A ship captain with the Alaska Marine Highway System initiated one of the complaints. The complaint discussed a number of issues related to the receipt of goods on vessels. The contractor responded to these complaints, providing information, proposing solutions, and requesting additional input from the ship and port captains.

2. A less formal e-mail complaint from DOT/PF's fiscal section concerned ASCI's processing of delivery orders. Due to a combination of ASCI's incomplete understanding of DOT/PF's tracking system and the conversion from Buy Speed to Smart Tools, DOT/PF Fiscal was not receiving necessary information for tracking and paying purchase orders. Although ASCI personnel have met with DOT/PF Fiscal, problems in this area continue. Complaints from vendors about delinquent payments are ongoing.
3. Shortly after ASCI assumed the procurement duties, a potential vendor complained that, although they had previously been the successful bidders on a sand and gravel contract, they had not been contacted to bid on a current contract. The contractor explained that bid solicitations had been sent to several potential bidders in the area and the lowest bid had been selected from the respondents. The contractor also provided the complainant with information about how to become aware of future bids.

OVERALL CONTRACTUAL COMPLIANCE CONCLUSIONS

The most significant provisions of the contract include two main aspects: the timely assumption of procurement and warehousing duties, and the reduction of costs associated with those functions. As of February 15, 2005, the contractor has complied with those provisions.

Although the contractor has complied with the most material contract provisions, some less significant target dates have been missed. Not all of these were within the complete control of the contractor. For example, some of the timelines involved training sessions for State of Alaska staff; some sessions were delayed to accommodate staff leave. All revised timeliness were discussed with and approved by the State of Alaska Contract Administrator. As shown in Table 3, one such training remains for Ketchikan staff.

The one area of contract noncompliance not related to missed timelines concerns contracting with ASCI LLC members. In several instances, purchases from ASCI LLC members have not been pre-authorized by the Contract Administrator. Although the process outlined in the contract was not followed in these cases, each purchase was apparently in the best interest of the State of Alaska.

THE
FOLLOWING
DOCUMENT(S)
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RNG	PO No	Rel	SR Rcvd	Date Issued	WDTP	Buyer	Cost	Vendor
10	333688		07/01/03	07/01/03	0	Bill Adair	\$236.94	COSTCO WAREHOUSE - JUNU
309	333987		07/11/03	07/16/03	3	Bill Adair	\$80.99	IKON OFFICE SOLUTIONS, INC
655	334342		07/30/03	08/01/03	2	Bill Adair	\$143.54	OFFICE PLUS
701	334389		08/04/03	08/05/03	1	Bill Adair	\$55.98	OFFICE PLUS
832	334523		08/13/03	08/13/03	0	Bill Adair	\$800.00	Office Plus
3	333681		07/01/03	07/01/03	0	Bo McAdoo	\$808.40	TYLER RENTAL INC - JUNEAU
29	333707		07/02/03	07/02/03	0	Bo McAdoo	\$215.10	GRAINGER - SEATTLE
170	333848		07/08/03	07/09/03	1	Bo McAdoo	\$253.10	THE BUYING NETWORK
265	333943		07/14/03	07/15/03	1	Bo McAdoo	\$1,166.21	ANCHORAGE SAND & GRAVEL CO
964	334657		08/18/03	08/20/03	2	Bo McAdoo	\$2,108.00	Alaska Ship Chandlers
1059	334750		08/20/03	08/22/03	2	Bo McAdoo	\$685.69	MCMASTER-CARR SUPPLY COMPANY
1085	334776		08/25/03	08/26/03	1	Bo McAdoo	\$955.00	PRIME MOVER CONTROLS
1127	334817		08/25/03	08/27/03	2	Bo McAdoo	\$1,067.60	VALLEY POWER SYSTEMS, INC.
1452	335166		09/05/03	09/15/03	6	Bo McAdoo	\$221.60	NC MACHINERY - JUNEAU
1527	335243		09/17/03	09/18/03	1	Bo McAdoo	\$766.88	THE BUYING NETWORK
1593	335315		09/19/03	09/22/03	1	Bo McAdoo	\$139.19	MCMASTER-CARR SUPPLY COMPANY
1599	335322		09/19/03	09/23/03	2	Bo McAdoo	\$247.56	THE BUYING NETWORK
1624	335348		09/18/03	09/24/03	4	Bo McAdoo	\$176.35	NORTHERN SALES
222	333900		07/01/03	07/11/03	8	Cindi Brown	\$20.00	EAGLE ENTERPRISES INC
308	333986		07/15/03	07/16/03	1	Cindi Brown	\$420.00	GLACIER TOWING
1038	334729		07/23/03	08/21/03	21	Cindi Brown	\$15,000.00	HOSE-MCCANN TELEPHONE CO., INC
1716	335442		09/18/03	09/29/03	7	Cindi Brown	\$125.00	ALASKA SHIP & DRYDOCK
107	333785		07/08/03	07/08/03	0	JROGERS	\$638.99	GRAINGER - SEATTLE
359	334038		07/18/03	07/18/03	0	JROGERS	\$42.78	GRAINGER - SEATTLE
689	334376		08/04/03	08/05/03	1	JROGERS	\$990.00	Napa/Service Auto
953	334644		08/12/03	08/19/03	5	JROGERS	\$224.50	BECK ELECTRIC COMPANY
986	334677		08/12/03	08/21/03	7	JROGERS	\$938.48	MCMASTER CARR SUPPLY COMPANY
1230	334923		08/27/03	09/02/03	3	JROGERS	\$72.77	GRAINGER - SEATTLE
1661	335386		09/18/03	09/25/03	5	JROGERS	\$237.68	MCMASTER CARR SUPPLY COMPANY
1833	251S0315M	162	08/05/03	08/07/03	2	JROGERS	\$260.06	NC MACHINERY - JUNEAU
18	333696		07/01/03	07/02/03	1	Mindy Bugayong	\$252.00	JUNEAU ELECTRONICS
561	334245		07/15/03	07/29/03	10	Mindy Bugayong	\$58.80	WASTE MANAGEMENT
564	334248		07/28/03	07/29/03	1	Mindy Bugayong	\$48.00	AILEN MARINE
650	334337		07/22/03	08/01/03	8	Mindy Bugayong	\$1,465.62	AMERICAN HOTEL REGISTER COMPANY
890	334581		08/13/03	08/15/03	2	Mindy Bugayong	\$1,370.75	LAB SAFETY SUPPLY
1116	334806		08/22/03	08/27/03	3	Mindy Bugayong	\$136.30	OLYMPUS TROPHIES & ENGRAVING

1348	335053		09/08/03	09/09/03	1	Mindy Bugayong	\$58.00	ALASKA SAFETY INCORPORATED
1488	335202		09/11/03	09/16/03	3	Mindy Bugayong	\$519.12	Durable Corporation
1502	335216		09/15/04	09/17/03	2	Mindy Bugayong	\$252.12	ALASKA INDUSTRIAL HARDWARE, INC / JUNEAU
389	334070		07/11/03	07/22/03	7	Nick Cashen	\$63.50	ALASKA SAFETY INCORPORATED
437	334118		07/17/03	07/23/03	4	Nick Cashen	\$170.00	SURVEYOR'S EXCHANGE
827	334518		08/12/04	08/13/03	1	Nick Cashen	\$11.17	CAPITAL OFFICE SUPPLY
836	334527		08/11/03	08/13/03	2	Nick Cashen	\$158.20	ALASKA SAFETY INCORPORATED
1045	334736		08/21/03	08/22/03	1	Nick Cashen	\$2,882.00	XEROX CORP - SANTA FE SPRINGS
1126	334816		08/27/03	08/27/03	0	Nick Cashen	\$1,044.00	ALLEN MARINE
1318	335021		09/04/03	09/08/03	2	Nick Cashen	\$35.98	OFFICE PLUS
1772	250S0169M	40	08/12/03	08/12/03	0	Nick Cashen	\$103.60	K & L DISTRIBUTORS -ANC
274	333952		07/08/03	07/15/03	5	RENIERE	\$982.00	CAPITAL OFFICE SUPPLY
324	334003		07/10/03	07/16/03	4	RENIERE	\$446.68	BARGREEN ELLINGSON, INC.
1384	335094		09/08/03	09/10/03	2	RENIERE	\$116.70	DELTA ALASKA WHOLESALE

RNG	DO No	Rel	SR Rcvd	Date Issued	WDTP	Buyer	Cost	Vendor
2	339995	0	07/16/04	07/20/04	2	Bill Fidler	\$67,644.00	Mercury Data Group Inc - Anc
6	340052	0	07/21/04	07/22/04	1	Bill Fidler	\$29.00	Juneau Electronics
11	340229	0	07/28/04	07/30/04	2	Bill Fidler	\$99.30	Napa/Service Auto
18	340341	0	08/03/04	08/04/04	1	Bill Fidler	\$200.00	Risa Technologies
60	340575	0	08/13/04	08/17/04	2	Bill Fidler	\$77.86	Boomers Sewing
102	340657	0	08/20/04	08/23/04	1	Bill Fidler	\$478.00	Alfa Tech
133	340719	0	08/23/04	08/24/04	1	Bill Fidler	\$378.00	Juneau Electronics
158	340898	0	09/03/04	09/03/04	0	Bill Fidler	\$102.24	Granger - Seattle
164	340966	0	08/30/04	09/09/04	8	Bill Fidler	\$1,270.83	Wartsila
184	341020	0	09/12/04	09/13/04	1	Bill Fidler	\$209.00	General Technology Inc
185	341057	0	09/14/04	09/14/04	0	Bill Fidler	\$579.00	Juneau Electronics
194	341131	0	09/13/04	09/17/04	4	Bill Fidler	\$886.00	Port Plastics
215	341232	0	09/23/04	09/25/04	2	Bill Fidler	\$570.00	Northern Communications Company
233	340617	0	08/19/04	08/19/04	0	Cyndi Brown	\$2,495.00	Fairhaven Shipyard
261	340816	0	08/17/04	08/30/04	9	Cyndi Brown	\$1,611.10	Best Access Systems
335	341050	0	08/27/04	09/14/04	12	Cyndi Brown	\$1,723.68	Abb Turbocharger
337	250S0246M	10	09/08/04	09/13/04	3	Cyndi Brown	\$11,500.00	Prime Mover Controls
388	339696	0	07/02/04	07/20/04	12	Faye Bain	\$171.00	Murray Pacific Supply Corp Ak
390	339863	0	07/02/04	07/15/04	10	Faye Bain	\$1,231.20	Aspen Hotel Soldotna
404	339954	0	07/09/04	07/19/04	6	Faye Bain	\$3,430.00	Lakeside Industries
419	340237	0	07/29/04	08/02/04	3	Faye Bain	\$745.74	McMaster-Carr Supply Company
494	340312	0	08/03/04	08/04/04	1	Faye Bain	\$1,275.00	Quadra Chemicals
500	340460	0	08/09/04	08/10/04	1	Faye Bain	\$2,000.00	Pacific Radar, Inc.
512	340472	0	08/10/04	08/10/04	0	Faye Bain	\$143.47	Boundtree Medical
532	340527	0	07/28/04	08/13/04	12	Faye Bain	\$352.48	Granger - Anch
569	340579	0	08/16/04	08/17/04	1	Faye Bain	\$373.35	Gilson Company Inc
576	340628	0	08/19/04	08/19/04	0	Faye Bain	\$160.95	Forestry Suppliers, Inc
589	340922	0	09/01/04	09/07/04	5	Faye Bain	\$36.72	Granger - Anch
598	341081	0	08/23/04	09/15/04	17	Faye Bain	\$21.36	McMaster Carr Supply Company
624	341137	0	09/16/04	09/20/04	2	Fred Sayre	\$2,426.79	Alfa Tech
633	339948	0	07/15/04	07/19/04	2	Joe Ahumada	\$439.92	Alfa Tech
648	339985	0	07/13/04	07/20/04	5	Joe Ahumada	\$821.30	McMaster-Carr Supply Company
677	340038	0	07/02/04	07/22/04	14	Joe Ahumada	\$3,932.79	Alfa Tech
673	339692	0	07/02/04	07/02/04	0	Judy Gustafson	\$1,285.67	Sperry Marine - Kent
673	340100	0	07/02/04	07/23/04	15	Judy Gustafson	\$21,000.00	Southeast Road Builders Inc
734	339709	0	07/06/04	07/06/04	0	Samantha Brown	\$251.20	Alaska Litho Inc

First Qtr, Audit Pool, ASCI

Attachment 1B

787	339734	0	07/02/04	07/07/04	3	Samantha Brown	\$24.20	Captains Nautical
805	339795	0	07/09/04	07/13/04	2	Samantha Brown	\$48.40	Marine Exchange Of Alaska
827	339917	0	07/08/04	07/16/04	6	Samantha Brown	\$2,190.00	Hose-Mccann Telephone Co , Inc.
867	339986	0	07/20/04	07/20/04	0	Samantha Brown	\$736.00	Restaurant Appliances
889	340314	0	08/03/04	08/04/04	1	Samantha Brown	\$1,004.64	Powerhouse Diesel Inc.
895	340498	0	08/11/04	08/11/04	0	Samantha Brown	\$678.00	Juneau Electronics
911	340668	0	08/23/04	08/23/04	0	Samantha Brown	\$4,119.93	Acme Fence Company, Inc
951	340684	0	08/23/04	08/24/04	1	Samantha Brown	\$297.86	Office Plus
955	340726	0	08/23/04	08/25/04	2	Samantha Brown	\$1,984.50	Us Filter - Electrocatalytic Products
970	340741	0	08/23/04	08/25/04	2	Samantha Brown	\$4,338.79	Raincountry Refrigeration
992	341163	0	09/21/04	09/21/04	0	Samantha Brown	\$1,601.00	Chris-Marine East Coast Inc
1025	341187	0	09/15/04	09/22/04	5	Samantha Brown	\$2,269.63	Electro Tech Company, Llc
1058	341276	0	09/23/04	09/29/04	4	Samantha Brown	\$140.00	Skyriver Films
1094	340358	0	08/03/04	08/05/04	2	Scott Hawkins	\$130.00	Southeast Ocean Survival

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3.45

First Qtr, Cost of Goods Comparison

Attachment 2A

DO No.	DO Amount	Vendor / Contractor	City	State	Date	Cost +/-
340354	\$1,182.70	Electro Tech Company, Llc	Juneau	AK	08/04/04	Increase 37.8%
339944	\$225.08	Alaska Bearing, Inc.	Anchorage	AK	07/19/04	Increase 9.3%
339694	\$1,539.00	Anchorage Parking Authority	Anchorage	AK	07/05/04	No Change
340097	\$31,500.00	Pate Construction Company	Yakutat	AK	07/23/04	No Change
341009	\$705.66	Arctic Controls	Anchorage	AK	09/13/04	No Change
341061	\$1,906.00	Port Plastics	Tukwila	WA	09/14/04	No Change
339704	\$113.78	Hubert Company Llc	Harrison	OH	07/06/04	No Comparison
339707	\$107.84	Madison Lumber & Hardware, Inc	Ketchikan	AK	07/06/04	No Comparison
339725	\$160.63	Allen Marine Inc	Auke Bay	AK	07/07/04	No Comparison
339778	\$1,143.94	Mcmaster-Carr Supply Company	Los Angeles	CA	07/11/04	No Comparison
339850	\$132.76	Electrotech Company, Llc	Juneau	AK	07/14/04	No Comparison
339885	\$182.10	Global Industrial Equipment	Suwanee	GA	07/15/04	No Comparison
339952	\$4,756.00	Beck Electric	Seattle	WA	07/19/04	No Comparison
339982	\$4,421.16	Pine Instrument Company	Grove City	PA	07/20/04	No Comparison
339980	\$2,350.00	Fairhaven Shipyard	Bellingham	WA	07/20/04	No Comparison
339988	\$1,390.00	Beck Electric	Seattle	WA	07/20/04	No Comparison
340016	\$115.34	L N Curtis & Sons	Seattle	WA	07/21/04	No Comparison
340242	\$591.18	J A Sexauer Inc - Ny	White Plains	NY	08/02/04	No Comparison
340256	\$443.40	Mcmaster-Carr Supply Company	Los Angeles	CA	08/02/04	No Comparison
340328	\$389.70	West Marine Products Inc.	Bellingham	WA	08/04/04	No Comparison
340337	\$1,575.00	Engineered Equipment Company	Anchorage	AK	08/04/04	No Comparison
340370	\$333.45	Mcmaster-Carr Supply Company	Los Angeles	CA	08/05/04	No Comparison
340463	\$907.70	Beck Electric	Seattle	WA	08/10/04	No Comparison
340472	\$143.47	Boundtree Medical	Tempe	AZ	08/10/04	No Comparison
340484	\$877.43	L N Curtis & Sons	Seattle	WA	08/11/04	No Comparison
340521	\$2,559.62	Dli Engineering	Bainbridge Island	WA	08/13/04	No Comparison
340563	\$2,875.00	Paratex Pied Piper	Anchorage	AK	08/17/04	No Comparison
340573	\$236.00	Juneau Electronics	Juneau	AK	08/17/04	No Comparison
340600	\$1,315.00	Arctic Controls	Anchorage	AK	08/18/04	No Comparison
340614	\$294.00	Cascade Machinery	Seattle	WA	08/19/04	No Comparison
340638	\$609.60	Apax Electric	Seattle	WA	08/20/04	No Comparison
340652	\$1,068.28	Temisco Helicopters Skagway	Skagway	AK	08/23/04	No Comparison
340667	\$719.95	Precision Fluid Power Inc	Oklahoma City	OK	08/23/04	No Comparison
340686	\$15,926.41	MSC Industrial Supply Company	Elkhart	IN	08/24/04	No Comparison
340696	\$612.72	L N Curtis & Sons	Seattle	WA	08/24/04	No Comparison

First Qtr, Cost of Goods Comparison

Attachment 2A

340754	\$665.04	Brown's Electrical Supply Co , Inc.	Anchorage	AK	08/25/04	No Comparison
340791	\$271.92	J A Sexauer - Ak	Eagle River	AK	08/27/04	No Comparison
340870	\$360.94	Office Plus	Juneau	AK	09/01/04	No Comparison
340894	\$2,297.50	Pc Hydraulics	Ward Cove	AK	09/03/04	No Comparison
340939	\$750.00	Seattle Boiler Works	Seattle	WA	09/08/04	No Comparison
341037	\$1,579.00	Emi Engine Monitor Inc.	Harahan	LA	09/13/04	No Comparison
341044	\$11,746.22	Kaman Industrial Technologies Corporation	Seattle	WA	09/14/04	No Comparison
341122	\$2,075.20	Tacoma Screw Products	Tacoma	WA	09/17/04	No Comparison
341130	\$1,125.00	Aspen Hotel Soldotna	Soldotna	AK	09/17/04	No Comparison
341153	\$2,637.92	Mcmaster-Carr Supply Company	Los Angeles	CA	09/20/04	No Comparison
341172	\$1,524.00	Humming Bird Services	Ketchikan	AK	09/21/04	No Comparison
341217	\$5,500.00	Robert M. Keenholts, Inc	Seattle	WA	09/24/04	No Comparison
341244	\$6,867.96	Office Plus	Juneau	AK	09/27/04	No Comparison
341287	\$602.00	Juneau Electronics	Juneau	AK	09/29/04	No Comparison
340043	\$4,401.00	Beck Electric	Seattle	WA	07/22/04	See reason
	\$122,866.82					

July 1, 2004 through Sept. 30, 2004

Stock Requests

ASCI Office

Documents 1,091

Line Items 4,558

SER Warehouse

Documents 544

Line Items 3,250

Total SR's

Documents 1,635

Line Items 7,808

Delivery Orders

ASCI Office 1,107 \$2,316,071

SER Warehouse 503 \$166,425

Contracts

20 \$431,319

Warehouse

Inventory Issues 476 \$133,614

Total

Transactions 2,106 -----

Dollar Value ----- \$3,047,429

July 1, 2003 through Sept. 30, 2003

Stock Requests

SER Office

Documents 1,155

Line Items 5,136

SER Warehouse

Documents 675

Line Items 3,560

Total SR's

Documents 1,830

Line Items 8,696

Delivery Orders

SER Office 1,295 \$1,697,478

SER Warehouse 558 \$189,521

Contracts

23 \$1,416,123

Revenue 1 ---

Warehouse

Inventory Issues 594 \$96,860

Total

Transactions 2,471 -----

Dollar Value ----- \$3,309,982

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First Qtr, Change Orders

Attachment 5A

DO No	Rel No	CO No	Date of DO	Date of C/O	Difference				Reason
1	50814	0	1	07/05/04	07/05/04	-7.82	0	0	Canceled
	50814	0	1	****	****	-23.4	0	0	****
2	337937	0	2	03/23/04	09/08/04	0	353.95	249	Vendor / Destination
	337937	0	2	****	09/08/04	0	353.95	79.95	****
3	337937	0	3	****	09/08/04	0	353.95	249	****
4	338459	0	1	04/24/04	08/10/04	-15.11	2989	2989	Service / Actual Cost Adjustment
5	339099	0	1	06/03/04	08/04/04	0	3375.02	3375.02	Contract / Cost Adjusted Down
6	339099	0	2	****	08/04/04	-23.76	3375.02	3375.02	****
7	339101	0	1	06/03/04	08/04/04	-7.92	3068.78	3068.78	Contract / Cost Adjusted Down
8	339308	0	1	06/14/04	08/09/04	-2670.4	329.6	329.6	Unit Cost Adjusted Down
9	339596	0	1	06/24/04	08/10/04	750	2250	2250	Service / Unit Cost Adjusted Up
10	339600	0	1	06/24/04	08/09/04	478	978	978	Service / Unit Cost Adjusted Up
11	339705	0	1	07/06/04	07/07/04	140	4520	2160	Unit Cost Adjusted Up
	339705	0	1	****	07/07/04	140	4520	2360	****
12	339708	0	1	07/06/04	07/22/04	-97.3	0	0	Canceled
	339708	0	1	****	07/22/04	-706.9	0	0	****
	339708	0	1	****	07/22/04	-413	0	0	****
	339708	0	1	****	07/22/04	-180.55	0	0	****
13	339736	0	1	07/07/04	07/08/04	0	3000	3000	Descriptor Changed
14	339748	0	1	07/08/04	07/13/04	800	941.25	841.25	Unit Cost Adjusted Up
15	339750	0	1	07/08/04	07/15/04	0	895.8	895.8	Destination Changed
16	339768	0	1	07/10/04	07/15/04	-13.65	0	0	Canceled
	339768	0	1	****	07/15/04	-5.85	0	0	****
	339768	0	1	****	07/15/04	-116.99	0	0	****
17	339769	0	1	07/10/04	07/12/04	-5.17	190.21	26.68	Unit Cost Adjusted Down
	339769	0	1	****	07/12/04	-1.2	190.21	12.82	****
	339769	0	1	****	07/12/04	0.45	190.21	16.92	****
	339769	0	1	****	07/12/04	-2.1	190.21	6.15	****
	339769	0	1	****	07/12/04	9.86	190.21	26.56	****
	339769	0	1	****	07/12/04	-1.88	190.21	25.12	****
	339769	0	1	****	07/12/04	-3.69	190.21	35.01	****
18	339770	0	1	07/10/04	07/10/04	0	0	0	Canceled
	339770	0	1	****	07/10/04	0	0	0	****
	339770	0	1	****	07/10/04	0	0	0	****

First Qtr, Change Orders

Attachment 5A

	339772	0	1	07/15/04	07/21/04	155	997	500	Unit Cost Adjusted Up
19	339778	0	1	07/11/04	07/14/04	30.28	1143.94	50.28	Unit Cost Adjusted Up
	339778	0	1	****	07/14/04	-169.68	1143.94	330.32	Unit Cost Adjusted Down
	339778	0	1	****	07/14/04	35.96	1143.94	135.96	Unit Cost Adjusted Up
	339778	0	1	****	07/14/04	2.48	1143.94	67.48	Unit Cost Adjusted Up
	339778	0	1	****	07/14/04	30.12	1143.94	82.12	Unit Cost Adjusted Up
	339778	0	1	****	07/14/04	5.64	1143.94	55.64	Unit Cost Adjusted Up
20	339778	0	2	****	07/15/04	-1.86	1143.94	422.14	Unit Cost Adjusted Down
21	339785	0	1	07/12/04	07/12/04	-521.72	0	0	Canceled
22	339820	0	1	07/14/04	07/14/04	5	74.48	67	Unit Cost Adjusted Up
23	339843	0	1	07/14/04	07/15/04	-10.49	0	0	Canceled
	339843	0	1	****	07/15/04	-10.49	0	0	****
	339843	0	1	****	07/15/04	-9.99	0	0	****
	339843	0	1	****	07/15/04	-1.55	0	0	****
24	339846	0	1	07/14/04	07/16/04	0	150.96	3.76	Description Changed
25	339852	0	1	07/14/04	07/14/04	25	250.04	212.35	Shipping Changed
26	339853	0	1	07/15/04	08/13/04	177.2	765.2	715.2	Unit Cost Adjusted Up
	339853	0	1	****	08/13/04	30	765.2	50	Unit Cost Adjusted Up
27	339856	0	1	07/15/04	07/15/04	-51.1	190.8	119.3	Unit Cost Adjusted Down
28	339893	0	1	07/16/04	07/20/04	0	498.04	79.92	Destination Changed
	339893	0	1	****	07/20/04	0	498.04	0.82	****
	339893	0	1	****	07/20/04	0	498.04	0.84	****
	339893	0	1	****	07/20/04	0	498.04	57	****
	339893	0	1	****	07/20/04	0	498.04	44.04	****
	339893	0	1	****	07/20/04	0	498.04	1.83	****
	339893	0	1	****	07/20/04	0	498.04	0.87	****
	339893	0	1	****	07/20/04	0	498.04	312.72	****
29	339927	0	1	07/19/04	08/23/04	233.12	233.12	233.12	Unit Cost Adjusted Up
30	339943	0	1	07/19/04	07/20/04	99.3	1728.25	198.6	Quantity changed
1	339949	0	1	07/19/04	07/21/04	6.5	82.25	6.5	Freight Added
32	339963	0	1	07/20/04	07/20/04	3	869.44	99.96	Freight Increased
33	339986	0	1	07/20/04	08/20/04	-64	736	716	Unit Cost Adjusted Down
	339986	0	1	****	08/20/04	-16.84	736	0	Unit Cost Adjusted Down
34	339988	0	1	07/20/04	07/21/04	-65	1390	1325	Freight Canceled
35	339989	0	1	07/20/04	07/23/04	-1064.16	1453.68	1064.16	Quantity changed
36	339995	0	1	07/20/04	07/21/04	0	67644	0	Line Item added
	339995	0	1	****	07/21/04	0	67644	0	****

First Qtr, Change Orders

Attachment 5A

37	339995	0	2	****	07/21/04	0	676.44	0	****
	339995	0	2	****	07/21/04	0	676.44	0	****
38	340007	0	1	07/21/04	07/27/04	-222.39	0	0	Canceled
39	340012	0	1	07/21/04	07/23/04	50	3449.96	50	Quantity changed
40	340048	0	1	07/22/04	07/22/04	0	160	160	Description Changed
41	340054	0	1	07/22/04	07/22/04	0	131.8	106.8	Description Changed
42	340056	0	1	07/29/04	09/21/04	230	7328	230	Freight Added
43	340119	0	1	07/23/04	07/26/04	-0.01	1091.78	15.96	Unit Cost Adjusted Down
	340119	0	1	****	07/26/04	-0.06	1091.78	24.21	****
44	340155	0	1	07/27/04	07/28/04	36	286	236	Unit Cost Adjusted Up
	340155	0	1	****	07/28/04	0	286	50	Freight Added
45	340155	0	2	****	07/28/04	50	286	50	****
	340155	0	2	****	07/28/04	0	286	0	Canceled
46	340156	0	1	07/27/04	07/28/04	-19.2	67.6	0	Line Item Canceled
47	340160	0	1	07/27/04	07/28/04	26.97	76.44	26.97	Unit Cost Adjusted Up
	340160	0	1	****	07/28/04	-49.47	76.44	49.47	Unit Cost Adjusted Up
48	340207	0	1	07/29/04	07/29/04	-324.06	0	0	Canceled
	340207	0	1	****	07/29/04	-267.12	0	0	****
49	340247	0	1	08/02/04	09/22/04	-72	72	72	Quantity changed
50	340258	0	1	08/02/04	08/03/04	130	1387.29	130	Freight Added
51	340261	0	1	08/02/04	08/02/04	0	1904	651	Description Changed
52	340261	0	2	****	09/03/04	1254	1904	1254	Line Item added
53	340264	0	1	08/02/04	08/03/04	-1.34	224.26	62.06	Unit Cost Adjusted Down
	340264	0	1		08/03/04	-1.62	224.26	20.12	Unit Cost Adjusted Down
	340264	0	1		08/03/04	-8.34	224.26	97.98	Unit Cost Adjusted Down
	340264	0	1		08/03/04	-1.23	224.26	2.06	Unit Cost Adjusted Down
	340264	0	1		08/03/04	-3.08	224.26	42.04	Unit Cost Adjusted Down
54	340267	0	1	08/02/04	08/03/04	1242	1880	1242	Unit Cost Adjusted Up
	340267	0	1		08/03/04	638	1880	638	Unit Cost Adjusted Up
55	340279	0	1	08/03/04	08/03/04	0	744	744	Description Changed
56	340302	0	1	08/03/04	08/05/04	43.9	349.9	43.9	Freight Added
57	340309	0	1	08/04/04	08/04/04	0	9720	4860	Unit Cost Adjusted Up
	340309	0	1		08/04/04	0	9720	4860	Description Changed
58	340319	0	1	08/04/04	08/05/04	3014.33	5141.34	5141.34	Unit Cost Adjusted Up
59	340362	0	1	08/05/04	08/06/04	0	630	600	Description Changed
60	340382	0	1	08/05/04	08/05/04	-40.84	0	0	Canceled
61	340405	0	1	08/06/04	08/12/04	0	220	180	Destination Changed

First Qtr, Change Orders

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62	340405	0	1	""	08/12/04	0	220	40	Destination Changed
63	340405	0	2	""	08/12/04	180	220	180	Unit Cost Adjusted Up
	340405	0	2	""	08/12/04	40	220	40	Freight Added
64	340417	0	1	08/06/04	08/16/04	539	722.56	539	Unit Cost Adjusted Up
	340417	0	1		08/16/04	158.56	722.56	158.56	Unit Cost Adjusted Up
65	340424	0	1	08/09/04	08/09/04	-34.68	0	0	Canceled
	340424	0	1	""	08/09/04	-5.72	0	0	Canceled
	340424	0	1	""	08/09/04	-8.24	0	0	Canceled
	340424	0	1	""	08/09/04	-51.04	0	0	Canceled
	340424	0	1	""	08/09/04	-8.72	0	0	Canceled
	340424	0	1	""	08/09/04	-6.96	0	0	Canceled
	340424	0	1	""	08/09/04	-124.48	0	0	Canceled
	340424	0	1	""	08/09/04	-224.94	0	0	Canceled
	340424	0	1	""	08/09/04	-97.65	0	0	Canceled
	340424	0	1	""	08/09/04	-97.65	0	0	Canceled
	340424	0	1	""	08/09/04	-8	0	0	Canceled
	340424	0	1	""	08/09/04	-5.12	0	0	Canceled
	340424	0	1	""	08/09/04	-5.12	0	0	Canceled
	340424	0	1	""	08/09/04	-130.12	0	0	Canceled
	340424	0	1	""	08/09/04	-232.92	0	0	Canceled
	340424	0	1	""	08/09/04	-22.62	0	0	Canceled
	340424	0	1	""	08/09/04	-22.62	0	0	Canceled
	340424	0	1	""	08/09/04	-152.6	0	0	Canceled
	340424	0	1	""	08/09/04	-8.88	0	0	Canceled
	340424	0	1	""	08/09/04	-90.66	0	0	Canceled
	340424	0	1	""	08/09/04	-62.24	0	0	Canceled
	340424	0	1	""	08/09/04	-72.12	0	0	Canceled
	340424	0	1	""	08/09/04	-27.92	0	0	Canceled
	340424	0	1	""	08/09/04	-51.04	0	0	Canceled
	340424	0	1	""	08/09/04	-51.98	0	0	Canceled
	340424	0	1	""	08/09/04	-46.78	0	0	Canceled
	340424	0	1	""	08/09/04	-64.32	0	0	Canceled
66	340462	0	1	08/10/04	08/17/04	564	11781.21	564	Freight Added
67	340470	0	1	08/10/04	08/13/04	244.8	4542.8	92.8	Unit Cost Adjusted Down
	340470	0	1		08/13/04	0	4542.8	166.4	Description Changed
	340470	0	1		08/13/04	0	4542.8	95.2	Description Changed
	340470	0	1		08/13/04	0	4542.8	89.6	Description Changed

First Qtr, Change Orders

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	340497	0	1	08/11/04	08/13/04	3700	3700	3700	Unit Cost Adjusted Up
	340497	0	1		08/13/04	0	3700	0	Item Added
68	340505	0	1	08/12/04	08/12/04	160	14740	10240	Unit Cost Adjusted Up
69	340521	0	1	08/13/04	08/17/04	0	2559.62	385	Department Changed
	340521	0	1	""	08/17/04	0	2559.62	385	Department Changed
70	340522	0		08/13/04	08/16/04	100	3551.22	100	Freight Added
71	340529	0	1	08/13/04	08/16/04	-30.15	380.07	329.85	Unit Cost Adjusted Down
	340529	0	1		08/16/04	0.22	380.07	50.22	Unit Cost Adjusted Up
72	340530	0	1	08/13/04	08/13/04	57.22	552.22	532.22	Unit Cost Adjusted Up
73	340535	0	1	08/13/04	08/16/04	-219.99	0	0	Canceled
	340535	0	1	""	08/16/04	-54.95	0	0	Canceled
74	340544	0	1	08/16/04	08/17/04	-1531	0	0	Canceled
	340544	0	2	""	08/17/04	0	0	0	Canceled
75	340546	0	1	08/16/04	08/16/04	38	0	0	Canceled
76	340546	0	2	""	08/16/04	-127.59	0	0	Canceled
	340546	0	2	""	08/16/04	-38	0	0	Canceled
77	340555	0	1	08/16/04	08/30/04	-5729	0	0	Canceled
	340555	0	2	""	08/30/04	-5729	0	0	Canceled
78	340557	0	1	08/16/04	08/17/04	-19.2	172.8	0	Quantity changed
	340557	0	2	""	08/17/04	0	172.8	0	Canceled
	340557	0	3	""	08/17/04	0	172.8	0	Canceled
79	340582	0	1	08/17/04	08/17/04	-193.5	0	0	Canceled
	340582	0	1	""	08/17/04	-25	0	0	""
80	340607	0	1	08/18/04	08/24/04	0	1045	1045	Description Changed
81	340612	0	1	08/19/04	09/02/04	-1146	0	0	Items Canceled
	340612	0	1	""	09/02/04	-304	0	0	Items Canceled
	340612	0	1	""	09/02/04	-200	0	0	Items Canceled
	340612	0	1	""	09/02/04	-672	0	0	Items Canceled
82	340620	0	1	08/19/04	08/23/04	0	1498	1498	Description Changed
83	340639	0	1	08/20/04	08/23/04	0	3145.34	3145.34	Description Changed
84	340666	0	1	08/23/04	09/03/04	-874	11626	5626	Unit Cost Adjusted Down
85	340667	0	2	08/23/04	09/29/04	-1088	719.95	700	Unit Cost / Description Changed
	340667	0	2		09/29/04	-440.05	719.95	19.95	Freight Change
86	340672	0	1	08/23/04	08/23/04	4595.43	4595.43	4595.43	Unit Cost Adjusted Up
87	340690	0	1	08/24/04	08/30/04	-19.2	0	0	Canceled
88	340692	0	1	08/24/04	08/30/04	-41.98	-41.98	-41.98	Unit Cost Adjusted Up
89	340727	0	1	08/25/04	08/25/04	-3.6	181	31.92	Unit Cost Adjusted Down

First Qtr, Change Orders

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	340727	0	1	""	08/25/04	-14.04	181	32.04	Unit Cost Adjusted Down
	340727	0	1	""	08/25/04	-1.8	181	15.72	Unit Cost Adjusted Down
	340727	0	1	""	08/25/04	-14.24	181	36.6	Unit Cost Adjusted Down
	340727	0	1	""	08/25/04	-28.32	181	64.72	Unit Cost Adjusted Down
90	340751	0	1	08/25/04	08/25/04	0.99	0.99	0.99	Unit Cost Adjusted Up
91	340812	0	1	08/30/04	08/30/04	-473.9	0	0	Canceled
	340812	0	1	""	08/30/04	-482.92	0	0	Canceled
	340812	0	1	""	08/30/04	-49	0	0	Canceled
	340812	0	1	""	08/30/04	-275.28	0	0	Canceled
92	340813	0	1	08/30/04	09/15/04	-363.6	96	96	Unit Cost / Quantity Changed
93	340845	0	1	08/31/04	09/01/04	72	9004.5	82.8	Unit Cost Adjusted Up
94	340879	0	1	09/02/04	09/02/04	-67.5	0	0	Canceled
	340879	0	1	""	09/02/04	-75	0	0	Canceled
	340879	0	1	""	09/02/04	-80.95	0	0	Canceled
	340879	0	1	""	09/02/04	-105	0	0	Canceled
95	340882	0	1	09/02/04	09/03/04	176	2664	58.61	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	132	2664	43.96	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	189	2664	62.94	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	88	2664	62.94	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	225	2664	74.93	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	85	2664	28.31	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	727.2	2664	242.16	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	676.8	2664	225.37	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	132	2664	43.96	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	132	2664	43.96	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	132	2664	44.09	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	189	2664	63.12	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	88	2664	63.12	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	727.2	2664	242.88	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	225	2664	75.15	Freight Added
	340882	0	1	""	09/03/04	85	2664	28.39	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	676.8	2664	226.05	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	176	2664	58.78	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	132	2664	44.09	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	132	2664	44.08	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	176	2664	58.61	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	189	2664	62.94	Unit Cost Adjusted Up

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	340882	0	1	""	09/03/04	132	2664	43.96	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	88	2664	62.94	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	225	2664	74.92	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	85	2664	28.3	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	727.2	2664	242.16	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	676.8	2664	225.38	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	132	2664	43.95	Unit Cost Adjusted Up
	340882	0	1	""	09/03/04	132	2664	43.95	Unit Cost Adjusted Up
96	340882	0	2	""	09/27/04	0	2664	62.94	Item Description Changed
	340882	0	2	""	09/27/04	0	2664	63.12	Item Description Changed
	340882	0	2	""	09/27/04	0	2664	62.94	Item Description Changed
97	340882	0	3	""	09/28/04	101	2664	62.94	Unit Cost Adjusted Up
	340882	0	3	""	09/28/04	101	2664	63.12	Unit Cost Adjusted Up
	340882	0	3	""	09/28/04	101	2664	62.94	Unit Cost Adjusted Up
98	340891	0	1	09/02/04	09/02/04	255	461.84	176	Unit Cost Adjusted Up
99	340891	0	2		09/03/04	-79	461.84	176	Unit Cost Adjusted Down
	340891	0	2		09/03/04	1.13	461.84	31.76	Unit Cost Adjusted Up
	340891	0	2		09/03/04	1.13	461.84	31.76	Unit Cost Adjusted Up
	340891	0	2		09/03/04	2.26	461.84	63.52	Unit Cost Adjusted Up
	340891	0	2		09/03/04	1.13	461.84	31.76	Unit Cost Adjusted Up
	340891	0	2		09/03/04	1.13	461.84	31.76	Unit Cost Adjusted Up
	340891	0	2		09/03/04	1.13	461.84	31.76	Unit Cost Adjusted Up
	340891	0	2		09/03/04	2.26	461.84	63.52	Unit Cost Adjusted Up
100	340896	0	1	09/03/04	09/03/04	-89.78	0	0	Canceled
	340896	0	1	""	09/03/04	-6.38	0	0	Canceled
	340896	0	1	""	09/03/04	-6.08	0	0	Canceled
101	340916	0	1	09/07/04	09/07/04	0	0	0	Description Changed
102	340916	0	2	""	09/07/04	-9700	0	0	Canceled
	340916	0	2	""	09/07/04	0	0	0	Canceled
103	340937	0	1	09/08/04	09/10/04	-1671.12	420.5	16.88	Quantity changed
104	341016	0	1	09/13/04	09/13/04	10.05	228.95	50	Unit Cost Adjusted Up
105	341018	0	1	09/13/04	09/22/04	40	102.68	72.68	Unit Cost Adjusted Up
106	341047	0	1	09/14/04	09/16/04	528.61	0	0	Unit Cost Adjusted Up
	341047	0	1	""	09/16/04	25	0	0	Canceled
107	341047	0	2	""	09/16/04	0	0	0	Canceled
108	341056	0	1	09/14/04	09/22/04	2000	1000	1000	Unit Cost Adjusted Up
109	341056	0	2		09/22/04	0	1000	1000	Description Changed

First Qtr. Change Orders

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110	341076	0	1	09/15/04	09/15/04	61.32	61.32	61.32	Unit Cost Adjusted Up
111	341092	0	1	09/16/04	09/17/04	108	712.56	120.42	Unit Cost Adjusted Up
112	341093	0	1	09/16/04	09/16/04	1.5	105	73.5	Unit Cost Adjusted Up
113	341099	0	1	09/16/04	09/16/04	0	701.4	701.4	Description Changed
114	341105	0	1	09/16/04	09/21/04	230	3664	230	Freight Change
	341105	0	1		09/21/04	0	3664	0	Item Added
115	341155	0	1	09/21/04	09/21/04	0	660	660	Description Changed
	341155	0	2	"	09/21/04	330	660	660	Quantity changed
116	341201	0	1	09/24/04	09/24/04	499	1698	499	Quantity changed
117	341213	0	1	09/24/04	09/24/04	8.5	284.7	8.5	Unit Cost Adjusted Up
	341213	0	1	"	09/24/04	17	284.7	17	Unit Cost Adjusted Up
	341213	0	1	"	09/24/04	1.55	284.7	1.55	Unit Cost Adjusted Up
	341213	0	1	"	09/24/04	20	284.7	20	Unit Cost Adjusted Up
	341213	0	1	"	09/24/04	16	284.7	16	Unit Cost Adjusted Up
	341213	0	1	"	09/24/04	14	284.7	14	Unit Cost Adjusted Up
	341213	0	1	"	09/24/04	16	284.7	16	Unit Cost Adjusted Up
	341213	0	1	"	09/24/04	4.5	284.7	4.5	Unit Cost Adjusted Up
	341213	0	1	"	09/24/04	4.5	284.7	4.5	Unit Cost Adjusted Up
	341213	0	1	"	09/24/04	4.5	284.7	4.5	Unit Cost Adjusted Up
	341213	0	1	"	09/24/04	8	284.7	8	Unit Cost Adjusted Up
	341213	0	1	"	09/24/04	8.5	284.7	8.5	Unit Cost Adjusted Up
	341213	0	1	"	09/24/04	7.5	284.7	7.5	Unit Cost Adjusted Up
	341213	0	1	"	09/24/04	12.5	284.7	12.5	Unit Cost Adjusted Up
	341213	0	1	"	09/24/04	6.9	284.7	6.9	Unit Cost Adjusted Up
	341213	0	1	"	09/24/04	6.9	284.7	6.9	Unit Cost Adjusted Up
	341213	0	1	"	09/24/04	99.95	284.7	99.95	Unit Cost Adjusted Up
	341213	0	1	"	09/24/04	2.5	284.7	2.5	Unit Cost Adjusted Up
	341213	0	1	"	09/24/04	3.75	284.7	3.75	Unit Cost Adjusted Up
	341213	0	1	"	09/24/04	3.75	284.7	3.75	Unit Cost Adjusted Up
	341213	0	1	"	09/24/04	17.9	284.7	17.9	Unit Cost Adjusted Up
118	341217	0	1	09/24/04	09/24/04	0	5500	5500	Description Changed
119	341235	0	1	09/27/04	09/27/04	2520	1350	990	Unit Cost Adjusted Up
	341235	0	1	"	09/27/04	2700	1350	360	Item Added
120	341235	0	2	"	09/27/04	-2340	1350	990	Unit Cost Adjusted Down
	341235	0	2	"	09/27/04	-2340	1350	360	Unit Cost Adjusted Down
121	341269	0	1	09/28/04	09/28/04	-553.3	2964	553.3	Quantity changed
	341269	0	1	"	09/28/04	-1936.7	2964	1936.7	Quantity changed

First Qtr, Change Orders

Attachment 5A

	341269	0	1	""	09/28/04	-434	2964	434	Quantity changed
122	341275	0	1	09/29/04	09/29/04	0	15427	15427	Description Changed
123	341282	0	1	09/29/04	09/29/04	0	1000	1000	Description Changed
124	341285	0	1	09/29/04	09/29/04	10	627.9	10	Item Added
	341285	0	1	""	09/29/04	0	627.9	0	Item Added
125	250S0036M	91	1		09/27/04	6500	6500	6500	Changed Qty from 0 to 1, 3 days
126	250S0048M	288	1		08/05/04	82.52	82.52	82.52	Cost Changed same day
127	251S0299M	84	1		07/22/04	0	42802.2	7133.84	Description Changed
128	251S0302M	72	1		09/01/04	-2000	0	0	Canceled
129	254S0708	0	3		07/28/04	0	814.67	282.87	Valued Increased
130	255S0778	0	1		08/24/04	0	24074.4	24074.4	Expiration Date Changed
131	255S0779	3	1		09/15/04	-110	0	0	Issued to wrong vendor
	255S0779	3	1		09/15/04	-25	0	0	Issued to wrong vendor
134	255S0792	0	1		09/10/04	0	5422.35	88	No reason
135	255S0798	0	1		09/27/04	0	2964	2964	Description Changed

MEMORANDUM

State of Alaska

Department of Transportation & Public Facilities
Office of the Commissioner

TO: Ray Matiashowski
Commissioner
Department of Administration

DATE: February 16, 2005

TELEPHONE NO: 465-3900
TEXT TELEPHONE: 465-3652
FAX NUMBER: 586-8365

FROM: Mike Barton *Mike*
Commissioner

SUBJECT: Audit Report of Alaska
Supply Chain Integrators

We have reviewed the first quarter (July 1 to September 30, 2004) Audit Report of Alaska Supply Chain Integrators outsourcing pilot. Enclosed you will find our department's comments and suggestions regarding this audit.

In an effort to reduce the processing time for the second quarter audit (October 1 to December 31, 2004), I would like to offer the assistance of our department's Finance and Internal Review sections. Please let me know if we can help.

Enclosure

cc: Cheryl Frasca, Director, Office of Management and Budget
Scott Hawkins, General Manager, Alaska Supply Chain Integrators
Michael Nizich, Deputy Chief of Staff, Office of the Governor
Mark O'Brien, Chief Contract Officer, DOT&PF
Gary Paxton, Southeast Regional Director, DOT&PF
Nancy Slagle, Director, Statewide Administrative Services, DOT&PF

VERN

Department of Transportation & Public Facilities
Report on the Outsourcing Procurement Pilot
February 14, 2005

Purpose: This report provides: 1) a summary of the February 4, 2005 Audit Report on outsourcing pilot program, 2) the department's comments on Audit Report, and 3) the results of a survey of Alaska Supply Chain Integrators' (ASCI) SmartTools users.

Background: Under contract for Procurement Services, Supply Chain Management and Electronic Tools, Alaska Supply Chain Integrators (ASCI) assumed responsibility for the duties of the Department of Transportation & Public Facilities (department), Southeast Region (SER) Procurement section on July 1, 2004. On October 1, 2004, ASCI assumed all duties of the Southeast Region Warehouse. The outsourcing pilot resulted in the layoff of the 10 department employees that previously staffed these functions.

ASCI's second quarter of operation under this contract concluded on December 31, 2004. An audit for the first quarter (July 1 to September 30, 2004) of ASCI's contract was conducted by the Department of Administration, Division of General Services (DGS) and is attached to this report as Attachment A.

The First Quarter Audit was released on February 4, 2005. A draft of the audit was provided to ASCI. With the exception of two comments regarding "Time to process" and "Responsibility for errors", ASCI is in agreement with the audit results as indicated in Attachment B.

Section One - Audit Summary

Time to process comparison:

- ASCI - 3.45 days
- SER - 2.96 days

There is no "time to process" improvement under ASCI management.

Cost of Goods:

By a process of random sampling, the audit determined the cost of goods purchased by ASCI (excluding orders less than \$100 and those placed under existing state contracts) increased an average of 1.1%. Applied to the total value of these orders, this is an estimated \$17,600 cost increase to the department for the first quarter of ASCI's contract.

Alaska Vendors:

- ASCI - 60% Alaska Vendors
- SER - 61% Alaska Vendors

Slightly fewer contracts have been awarded to Alaska vendors under ASCI management.

Workload Comparison

- ASCI process 17.3% fewer transactions, 12% fewer line items, and had a 11.6% overall decrease in total transaction dollars (dollar value of deliver orders increased by 36.4%) with a time to process equal to or longer than SER (see Time to process comparison, page 1).

Mistakes or Errors

- One specific error was found, but only resulted in an additional \$189.00. DGS will be sending ASCI a request for payment.
- The incorrect shipment of engine parts is still under investigation and no conclusions regarding this issue can be made at this time.

Section Two – Department's Comments on Audit

With the two exceptions previously noted, the audit has been accepted by both DGS and ASCI. The department also concurs.

It is clear from the audit conclusions that under ASCI management there has been no improvement in service and the cost of goods to the state have actually increased. Based on these findings we recommend that there be no expansion of the pilot until ASCI's performance demonstrates significant benefit to the state.

We also recommend that DGS modify its "Cost of Goods" sample size prior to completing the audit of the second quarter of ASCI's contract. Evaluation of 1% of the orders to determine the estimated change in the Cost of Goods may not be statistically sound.

In addition, based on concerns raised by ASCI's SmartTools users (see Attachment C) we recommend DGS test additional performance areas such as freight expenses, on-time delivery, and evaluate the additional department staff time required to implement this pilot.

As part of the next audit, we also request ASCI or DGS immediately undertake a more formal and thorough survey of users, vendors, and finance staff to identify the strengths and weaknesses of the current system and the successes and failures of the pilot thus far. The department would like to participate in the development of this survey to ensure it

covers the areas of concern identified in the informal survey as well as complaints received over the last several months. In addition to providing ASCI insight into the needs of its customer base, it will provide the state with feedback critical to ensure successful implementation of this pilot.

Section Three – SmartTools Survey

ASCI began training the majority of users of its SmartTools e-commerce software in January. In order to assess the efficiency and effectiveness of this new tool, we conducted an informal survey of the top ten users of the system. The results of this survey can be found in Attachment C.

The areas of needed improvement can generally be grouped into the following categories.

- Improve catalog navigation functionality to reduce search time.
- Modify the order tracking status function to provide current status and delivery date. Replacing descriptions such as "sourced out" with something like "quote date" will provide users with a better picture of order status. System generated tracking reports may assist users in tracking their outstanding orders.
- Improve order processing and warehouse inventory management to better respond to requested delivery dates and prevent expedited delivery charges.
- SmartTools automated notification system needs to be modified to reduce unwanted email notifications.
- Institute an internal ASCI order review process to improve order accuracy and to reduce returns, incorrect deliveries, delays and order errors.
- Develop an improved training program to reduce staff hour investment.
- Review ordering, receiving, tracking functions and develop strategies that avoid transferring additional work to the users.

Input from the SmartTools users confirm that there are improvements to be made to the system in order to realize maximum savings from this pilot.



MEMORANDUM
STATE OF ALASKA
Department of Administration
Division of General Services

Phone Number: 465-2250
FAX Number: 465-2189
TDD Number: 465-2205

TO: Walt Harvey
Contracting Manager

DATE: February 4, 2005

FROM: Charlie Deininger ^{CD}
Procurement Specialist

SUBJECT: Audit Report, First Quarter,
Contract No. 2004-9900-
4556 for Procurement
Services, Supply Chain
Management and Electronic
Tools

The attached audit report is submitted for your review and distribution.

The purpose of this review was to benchmark processes and assess for contract compliance with the terms and conditions of Contract No. 2004-9900-4556 for Procurement Services, Supply Chain Management and Electronic Tools between the State and Alaska Supply Chain Integrators, LLC (ASCI)

A copy of the completed report was provided to ASCI for review and comment. ASCI's comments are attached and made part of the final report.

Audit Report

First Quarter Audit of Procurement Services, Supply Chain Management and Electronic Tools Contract

Purpose

The purpose of this review is to benchmark processes and assess for contract compliance by Alaska Supply Chain Integrators, LLC (ASCI) with the terms and conditions of contract award 2004-9900-4556, Procurement Services, Supply Chain Management and Electronic Tools. A copy of contract award 2004-9900-4556 is available from the Division of General Services.

Objectives

The objectives of the audit were:

- benchmark and compare time to process transactions, workloads, cost of goods, and Alaska vendor utilization.
- assess for contract compliance, and
- audit for mistakes or errors that could result in additional costs to the state.

Scope

The evaluation covered the period of July 1, 2004 through September 30, 2004, or the first quarter of the current contract term. Beginning on July 1, 2004, ASCI assumed all procurement office duties and responsibilities. On October 1, 2004, (outside the scope of this audit) ASCI assumed all warehouse duties and responsibilities.

Methodology

In evaluating the performance of the contractor, it was necessary to develop methodology within the terms and conditions and requirements of the contract. Prior to starting, the Division of General Services (DGS) received guidance on audit methodology from Legislative Audit.

The following is an outline of the evaluation methodology:

ASCI data will be compared to previous Southeast Region (SER) data. The same three-month quarter will be used for items 1, 3 and 4 (i.e. SER 1st quarter FY04 vs. ASCI 1st quarter FY05, etc.) For item 2, SER 4th quarter procurements in FY04 will be compared to ASCI 1st quarter procurements in FY05 to allow for a more concise cost comparison. ASCI data during the 1st quarter FY05 will also be audited for mistakes or errors and compliance with procurement rules under item 5.

1. Time to Process:

Time to process comparison from receipt of requisition to issuance of delivery order. Transactions will also be audited for compliance with contractual procurement rules.

A random sample of 50 transactions will be audited. MS Excel will be used to generate the random sample pool.

2. Cost of Goods:

Cost of goods including freight (no change, decrease, or increase will be recorded).

Purchases from existing state contracts will be eliminated as well as transactions valued at \$100 and less. A random sample of 50 transactions from ASCI's first quarter procurements will then be generated. MS Excel will be used to generate the random sample pool. The cost of like items will be compared SER fourth quarter procurements. In addition, the PSV will include any known instances of significant price increases or decreases for like items and audit all procurements above \$150,000. ASCI will also be asked to provide any known instances of significant price increases or decreases.

3. Alaska vendors:

The total number and percentage of Alaska vs. non-Alaska vendors will be documented and compared.

4. Workload comparison:

The total number of delivery orders, Smart Tools orders, inventory issues, stock requests, line items and associated dollar values will be documented and compared.

5. Mistakes or errors:

Audit change orders. Eliminate transactions where change order did not result in additional costs and where the change order dollar value was \$100 or less. Audit the remaining change orders and document the cause of and responsibility for all increases.

The PSV will also audit any known potential instances of mistakes or errors that occurred during the reporting period. The cause of and responsibility for all increases will be documented.

Background Information

On July 1, 2003, HB 313 went into effect; this Act allowed the state to enter into a pilot program with a contractor to provide for the delivery of procurement services, supply chain management and electronic commerce tools to reduce state costs in a way that does not directly reduce program delivery.

Operational Analysis Report: During September 2003, an operational analysis report was completed which served to document the environment, provide baseline data and identify the state employees to be displaced as a result of the pilot program.

November 1, 2004, DGS issued Request for Proposals No. 2004-9900-4556 for Procurement Services, Supply Chain Management and Electronic Commerce Tools.

On March 19, 2004, DGS issued Contract No. 2004-9900-4556 to ASCI. The period of performance for this contract is March 19, 2004 through June 30, 2006, with two each three year renewal periods. However, any contract renewals or extensions past June 30, 2006 will require an amendment to the law of the State of Alaska and approval by the department of Administration.

On July 1, 2004, ASCI assumed all procurement office duties and responsibilities. July 1, 2004 was also the last day of employment for the 7 SER procurement office positions affected by the contract award. Of the 7 state employees, 2 were laid off on July 1, 2004, 4 employees resigned their positions and accepted other jobs with the State of Alaska prior to their scheduled last day of employment of July 1, 2004 and one employee retired on June 30, 2004.

From July 1, 2004 through September 30, 2004, ASCI utilized SER's procurement database (BuySpeed) to process delivery orders and contracts. DOT PF provided ASCI with training on SER's procurement database and processes.

On October 1, 2004, ASCI assumed all warehouse operations duties and responsibilities. October 1, 2004 was also the last day of employment for the 3 SER warehouse positions. Of the 3 positions affected by the contract award, 1 employee was laid off on October 1, 2004, 1 employee resigned his position and accepted another job with the State of Alaska prior to his scheduled last day of employment of October 1, 2004 and 1 employee retired on August 28, 2004.

Report Conclusions

1. Time to process comparison

For the purpose of this comparison, "time to process" is the elapsed time or number of days from receipt of a stock request (requisition) to the issuance of a delivery order.

MS Excel random number generator was used to determine a pool of 50 delivery orders to audit of all delivery orders issued by ASCI during the period of July 1, 2004 through September 30, 2004. This pool of orders was compared to all delivery orders issued by SER procurement office and warehouse during the period of July 1, 2003 through September 30, 2003.

Conclusion:

- ASCI time to process was 3.45 days (excluding delivery orders issued by SER warehouse staff)

- SER time to process was 2.96 days (including delivery orders issued by SER warehouse staff)
- The 50 delivery orders issued by ASCI were executed in compliance with contract procurement rules.
- For the test period, two delivery orders were greater than \$150,000. These procurements were issued in compliance with contract procurement rules.

Delivery Order No. 340273 / \$153,250

Delivery Order No. 340756 / \$202,250

Attachments: 1A. Audit Pool, SER
1B. Audit Pool, ASCI

Additional spreadsheets and backup documents required to calculate results are available upon request.

2. Cost of Goods including freight (no change, decrease, or increase will be recorded).

The total number of delivery orders issued by ASCI during the first quarter was 1,107

The number of delivery orders valued at \$100 or less, deducted from the total was 151

The number of delivery orders issued in accordance with existing state contracts, deducted from the total was 297

The number of delivery orders issued with federal funding, deducted from the total was 4 (these solicitations were reviewed and co-signed by the PSV)

	<u>No. of</u>	<u>Dollar value</u>
Delivery Orders	1,107	\$2,316,071.50
<u>Less (minus):</u>		
- Less than \$100:	151	\$7,265.69
- Contracts (state):	297	\$677,194.63
- Fed Funded:	4	\$31,640.00
	<u>655</u>	<u>\$1,599,991.80</u>

MS Excel random number generator was used to determine the pool of 50 delivery orders to audit from the 655 delivery orders above

To evaluate the 50 delivery orders a search was performed in the BuySpeed database for previous purchases by the SER procurement office during the 4th quarter of FY

04. Searches were by part number, if no part number match was found a search for similar makes or models was conducted.

Conclusion for the 50 delivery orders evaluated:

- 4 delivery orders, there was no change in costs. The same vendors were used for exact item(s).
- 43 delivery orders, no comparisons for evaluation were found.

Of the 43 delivery orders with no comparisons;

- 24 delivery orders, no part number was located for comparisons, though, historically the same vendor was used for similar items.
- 8 delivery orders, service related with no comparisons,
- 10 delivery orders, no part number or vendor comparisons were found,
- 1 delivery order, hotel room rental for training,
- 1 delivery order had a cost decrease; one item decreased by 0.55%, historically the item was sourced from the same vendor.
- 2 delivery orders had a cost increase;
 - 1 delivery order, the unit cost increased by 37.8, and
 - 1 delivery order, the unit cost including freight increased by 9.3%.

Conclusion for Contracts and Contract Releases

No cost increases or decreases were found for delivery orders or contract releases issued in accordance with contracts for supplies, commodities or equipment. During the quarter, ASCI did not establish any new supplies, commodities, or equipment contracts and issued 297 delivery orders in accordance with existing state contracts for supplies, commodities, or equipment.

During the quarter, ASCI established 20 new contracts; all 20 were service related contracts. No exact comparisons were found, in some cases the contracts were single source and/or the scope of service is not exact to a previous or similar service contracts.

On December 30, 2004, ASCI was asked to provide any known instances of price increases or decreases, however none were provided.

See Attachment: 2A, Cost of Goods Comparison

Additional spreadsheets and documents required for this comparison are available on request.

3. Alaska Vendors

The total number and percentage of Alaska vs. non-Alaska vendors will be documented and compared.

ASCI and SER warehouse staff combined issued a total of 994 delivery orders to Alaska vendors, or 60%

SER and SER warehouse staff issued a total of 1,124 delivery orders to Alaska vendors, or 61%

Documents and spreadsheets required to determine results are available upon request.

4. Workload Comparison

The total number of delivery orders, Smart Tools orders, inventory issues, stock requests, line items and associated dollar values will be documented and compared.

Conclusion for Workload Comparison

The stock request line item is the most accurate way to measure incoming workload. A stock request line item will result in one of the following; an inventory issue, a delivery order, or a contract.

During the first quarter of FY 05:

- 12% less stock request line items were processed by ASCI compared to stock request line items processed by SER procurement office during the first quarter FY 04.
- 17% less delivery orders were issued by ASCI compared to delivery orders issued by SER procurement office during the first quarter FY 04.
- The dollar value of delivery orders issued by ASCI is 36.4% greater compared to the dollar value of delivery orders issued by SER procurement office during to first quarter FY 04.
- The total number of transactions (delivery orders, inventory issues and contracts established) decreased by 17.3% compared to the first quarter FY 04.
- The total transaction dollar value (delivery orders, inventory issues and contracts established) decreased by 11.6% compared to the first quarter FY 04.

See Attachment: 4A, Workload Comparison

5. Mistakes or Errors

Conclusion of Change Orders

The issuance of change orders is not uncommon. Change orders are issued for any type of change to the original delivery order after issuance. The following are examples of types of changes to a delivery order; description change, line item(s) added or canceled, unit cost adjusted up or down, freight costs added or adjusted up or down, unit quantity adjusted up or down, or destination changed.

During the first quarter FY 05, ASCI staff issued 135 change orders. Change orders reviewed were typical and common.

During the review of change orders, one mistake due to an ASCI employee error was found. Review of the line for delivery order 340882 indicated a typo was made by an ASCI buyer that resulted in an additional cost to the state in the amount of \$189.00. The item was custom made and could not be returned for credit. In accordance with their contract with the state, ASCI is responsible for this mistake.

Conclusion for known potential instances of mistakes or errors

On October 19, 2004, an email was sent to the contract administrator from the Kennicott Chief Engineer and Port Engineer that indicated delivery orders issued by ASCI for engine parts for the Kennicott engine overhaul were sent to Juneau and had to be air freighted to Cascade General Shipyard, Portland OR. The orders should have been shipped to Bellingham, WA warehouse to be staged for future delivery to the shipyard.

At this time, responsibility for the mistake is still being investigated. On completion of the investigation, this report will be appended with the findings.

See Attachment: 5A, Change Orders

On January 31, 2005, Scott Hawkins, ASCI, LLC reviewed this report and submitted comments. This memo is attached and made part of this report.

Attachment: ASCI Memo, dated January 31, 2005

ATTACHMENT



MEMORANDUM

Date: January 31, 2005

TO: Charlie Deininger
Contract Administrator

FR: Scott Hawkins

RE: Audit Draft of January 28, 2005

Charlie, thanks for an opportunity to review the draft audit.

I have only two comments:

1. Time to process. SER procurement plus warehouse staff processed stock requests within an average 3.04 days in the first quarter of FY 2004 compared to 3.45 days for ASCI staff (excluding warehouse staff) in the first quarter of 2005. On this matter, I would like to offer some observations:
 - a. Comparing processing time *inclusive* of the warehouse for the pre-pilot period but *exclusive* of the warehouse for the post-pilot period may skew the comparison somewhat. Warehouse items are well specified with well established vendors, which makes them very easy to source. Non-warehouse items have a greater tendency to be poorly specified and/or to require more vendor research. These factors will tend to contribute to longer processing times.
 - b. ASCI's staff was in its first weeks and months of operation during FY 2005, as the audit report notes. Given the normal learning curve, the reduced staff resources compared to pre-pilot, and other start up challenges, we are very encouraged by your findings, observation (a) above notwithstanding.
2. Responsibility for errors. While we have discussed this verbally in past monthly meetings, I would like to note for purposes of this audit that ASCI managers do not concur with SOA's stance that we are responsible for incidental errors made in the course of normal operations. We understood this language to apply to contractual disputes that may arise in the course of our contracting duties. We will explain our position further in separate correspondence.

Charlie, having offered my comments above, I would like to say that your audit seems straightforward and professional.



ASCI SmartTools Survey

February 1, 2005

Survey Response: 7 out of 10 top ten users of ASCI SmartTools

Is it easier?

Not necessarily, one has to basically learn an entirely new process. For years we just used the blank stock request in excel and wrote up the request. Now we have to navigate thru many screens and fields just to order one simple thing. Bottom line, no it is not easier, but it is electronic so ASCI doesn't have to re-key the order into their system.

Yes, SmartTools is easier. Definitely better than tracking all the paper and chasing down signatures.

No!!

Not exactly, it takes time to have to scroll through the items available to see if we already have the item in stock or in the catalog, then you are not always sure if it is exactly what you want or not. If you have to add a new item, and after you place it in your cart you notice that you made a typo you can't easily correct your mistake, you have to delete your entry and start over again. It takes more time for us (the administrative staff) to enter in all the necessary data into the forms.

No, not really. I found when you start an order and start searching for stuff in their system, I got so many results that I found it kind of hard to easily find exactly what we were looking for. And, since not everything is in their system, I had to type in the specs for each item and it was time consuming.

Easier, no. I have to take the stock request submitted by the user and convert the items to the ASCI system. Take coveralls - ASCI system had the item but in XXL, so I had to 'create or add' the sizes that were needed. ASCI should create a way to order the size needed without 'adding' a new item.

How is order tracking?

I have looked at this section, but not really used it. It is nice to get some of the automatic emails about the orders being placed, so I can include a ship person and they will know that the order is rolling.

Tracking is good.

What is that and why would I need to track my order isn't that ASCI's job?

Additionally, I recently placed an order marked RUSH - PRIORITY 1, hand carried it down to ASCI and specifically asked for them to keep me posted of the progress and to supply me w/an ETA when it will be delivered. (This is a key piece of IT equip.). Over two weeks later I inquired about the status of the order and it couldn't be located. Then, I rec'd an email from ASCI telling me that it had gone over to ETS for ordering, but they couldn't tell me any more than that. After phone calls & emails, they were finally able to determine that it had been ordered. I have little confidence in their ability to handle RUSH/URGENT orders after this incident.

All depends on who you talk to; calendar ordered in September did not get here until Jan. Also, ASCI had Yakutat items 'shipped' on the Tustumena to save money, only the Tustumena did not stop in Yakutat on that run (after they took the order) and the vessel kept the items. No money saved on that order. Also some vendors are holding all the items to ship together, but there are times when the station needs an order earlier so those items end up getting Goldstreaked.

Average time to do ASCI order vs. old ways of procurement. ASCI time is 1/2 minute to 3 depending on the number of items. Old Way - complete stock request and get it signed and send to procurement. Same amount of time for me but could be longer for the Stations.

How is the receiving working?

Since I don't receive the items I can't really speak directly to this one.

I don't like being included on the automatic notification after xx days that an order is not closed out or received. Once an order is placed and rolling, I don't want to be included in the process of receiving or even knowing that it has been properly closed to allow the vendor to be paid. I discussed this with Samantha yesterday, and she related that because I was the originator, I was included when the order didn't get received properly. I requested to be removed from this thing.

I haven't done the receiving reconciliation yet.

I have only received one item, but did not get a PO or know if a signature was required since I was not here when it was delivered.

I have done a little bit of receiving in SmartTools. My experience has been that I get an email from ASCI telling me I need to go in & receive something, and I follow the instructions to find out it has already been done. I also receive numerous reminders to receive a PO that has already been rec'd. For example, the last three Mondays, I have rec'd a notice to receive PO 682 and it has been received for quite some time.

Not been able to use that feature.

Other comments?

If one attempts to quantify all the staff hours in training and learning their systems and the loss of efficiency this ASCI thing is not an improvement. All the users are now doing more of their work in terms of entering orders electronically. Sure it is cool to have all the electronic tools and notifications, but at the end of the day are we getting items faster and cheaper -- I DON'T THINK SO.

I think I've said enough! The whole process of ordering materials has been a major distraction and time-consuming process. Not only figuring out the system, training, etc., but having to go through each and every MR to figure out what I have received and what I haven't. I don't like the transition, but am expecting great things from the ASCI theory!! Hopefully soon!!

Having this available to a variety of people causes me some concerns. There is no real way to verify whether the user is using the correct codes if neither the requester and approver do not use the codes on a daily basis, also it makes it very difficult for the person responsible for monitoring expenses (me) to track who is spending how much on what, and making sure that we are complying with code A-87.

My overall experience w/ASCI has been very frustrating. I feel like I have to nag them to get the most common supply orders delivered. I honestly dread placing orders with them because I have no confidence that it will be handled efficiently or timely.

Are there items that ASCI should not be ordering? Computers? If so then we need to know so that they are not asked to order those items. Can I purchase/order item and have them changed to my One-Card? If so, then why would I have ASCI order those items for me?

ASCI SmartTools pulls codes from Byspeed and the financial codes in Byspeed are often wrong.

Receiving numerous orders in error, wrong sizes, wrong station, wrong product, etc.. I think some of these problems are just because of the switch to a new way of doing things. Also some of the problems could be because of the 'lack of training' for ASCI.

Overall email consumption with automated requests? The ASCI system auto-generates an e-mail when a order is placed. If I input 20 orders then the approver and I both get 20 e-mails on those orders. Also I have found that I get kicked out of the ASCI system when e-mails are received by my machine.

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Readers Respond to GPRO Articles

Alaska's Procurement Outsourcing Pilot

The fiscal conditions of Alaska, like many other states, require us to continually seek opportunities that reduce the expenditure of public funds. We must thoroughly explore responsible methods that are responsive to agency needs and accountable to the public. Alaska's procurement outsourcing pilot, authorized during last legislative session, provides such an opportunity.

The supply chain management firm that received the contract has performed the full range of procurement and warehouse management services in excess of five years. Clients include major national corporations, which have similar MRO needs. It is not simply a "newly formed limited liability corporation" as stated in the article.

The article infers that some type of impropriety occurred because the state contracted for an initial

assessment of the pilot agency, but did not ask the National Institute of Governmental Purchasing (NIGP) nor the National Association of State Procurement Officers (NASPO) to participate.

Given that the pilot agency had been previously selected by the state, the scope of work was limited to general administrative tasks such as mapping existing business processes, verifying job duties, and describing transactional dollar amounts, labor and

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overhead costs, federal funding requirements, online systems and reports. Since no specialized procurement experience was required to perform the work, neither NIGP nor NASPO were solicited.

The article also alleges the state failed to follow standard practice when awarding the initial assessment contract, which is true; the minimum legal requirements were

exceeded! Soliciting at least three in-state proposals is required for this level of procurement (\$50,000 and less). However, a total of twelve companies were solicited, some located outside Alaska including large, nationally recognized firms. Only one proposal was received. The winning outofstate proposal was evaluated, determined to be responsive and scored, references were checked, the total price was well below the "do not exceed" dollar amount, and the contractor provided proof of insurance as required. The statement that there was no "apparent investigation or justification, which is standard practice when only one proposal is received" is simply not correct.



Purported cost savings are mentioned and the article states that not much of anything was revealed in the legislative record that the private sector couldn't do better, faster, and cheaper. After awarding a contract, here are the facts:

Cost Savings: The comparison of state employee costs to the contract rates, including a one-time implementation fee will result in savings of 22 percent over the twoyear pilot term. Annual cost savings would increase dramatically to 34 percent if the pilot term were extended.

Additional savings will be realized due to the avoidance of employee training costs, CDL drug tests, supplies and equipment. Vacated office and warehouse space will also be available for other state purposes. The contractor's e-commerce tools, systems and procurement methods are expected to result in efficiencies and further reduce the cost of goods and services.

Better, Faster, Cheaper: The successful contractor will not only employ a variety of standard procurement methods (formal, informal, negotiated, etc.), but also incorporate online techniques such



as electronic requisitioning, reverse auctioning, bundling and catalogs via a suite of Internet e-commerce tools and systems. Such enhancements will improve the delivery of procurement services in a more timely, yet less expensive manner. All of these services are included in the contractor's proposal at no additional cost.

The term privatization used throughout the article is an erroneous label for this project. Under privatization the government transfers both the responsibility and accountability for a function. In this case, procurement and warehouse services are being outsourced. That is, a private sector company is responsible for the services provided, but the state will remain accountable for the results.

The senior procurement manager for the pilot agency will directly administer the contract, observe the contractor's work on site and independently benchmark results. Although the procurement code was waived for the most part, the contractor will be required to follow procurement standards developed by the state. In addition, the contractor proposed additional rules that will basically mirror the state's competitive levels in many instances. The contractor also proposed detailed procedures for building a viable and diverse vendor base to serve the state's needs. We believe sufficient safeguards are in place to protect public interests.

The article attaches some vague significance to the word "globalization" and Mr. Grant states that in light of this term being used in the legislation, there was a concern that only Alaska-based businesses would be considered for a award. A condition he says that was not removed from the RFP. Again, those statements are incorrect. The word "globalization" is not found anywhere in the legislation nor did the

RFP restrict award to Alaska-based businesses. Services could be performed at the contractor's location, in or outside Alaska, and only a limited number of employees were required on site.

Mr. Grant's assumption that the feasibility study portion of the legislation was a foregone conclusion due to the time frames involved is erroneous. Requirements for feasibility studies, alternate plans and associated time frames are found in Alaska's employee bargaining agreements, not the legislation. Alaska, like any public jurisdiction must abide by the terms of its collective bargaining agreements. The employees' unions received appropriate notice three months before issuance of the outsourcing RFP, which was seven months in advance of the deadline for alternate plans.

The article ends with the question "Any lessons learned from this?" This is an emotional subject and outsourcing will not work in all public procurement applications. However, in this instance it

appears that we can learn from private sector supply chain management practices. In my opinion, rather than attack new ideas with unsubstantiated rhetoric, we must explore, understand, benchmark and if warranted—embrace innovative and responsible methods that reduce the expenditure of public funds. To do otherwise will surely, to quote Mr. Grant, "end government procurement as we know it."

—Walt

Harvey,

CPPB,

CPPO, Contracting Manager, State of Alaska

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Privatizing Public Procurement

by Beau Grant

Alaska's pilot program to privatize state procurement has set the stage to conduct contracting activities for Maintenance, Repair and Operations (MRO) and general services for two targeted agencies and other state functionalities. The recently awarded contract went to a newly formed limited liability corporation (LLC). Procurement positions in the affected areas were eliminated at a purported cost savings of millions in personnel reductions.



Actually, it happened quickly, with little resistance. The Alaska State Legislature was looking for ways to cure its serious budget deficit and decided it could save money by eliminating personnel from the payroll. They quickly targeted procurement because there wasn't anything on the record that demonstrated procurement's value to the state. Nor did the record reveal much of anything that the private sector couldn't do better, faster, and cheaper.

In merely 10 days, the empowered clueless passed legislation establishing the pilot program to privatize all procurement in selected agencies for a period of up to three years. Interestingly, the legislation also exempted the successful private contractor

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from complying with the state's procurement code.

The state legislation spelled out a plan to evaluate and assess current procurement activity in the designated areas to be privatized, develop a formal, sealed Request for Proposal (RFP) to obtain competition, conduct a feasibility study after receipt of proposals, and then decide whether or not to privatize.

Also of interest was the use of the latest political buzzword, "globalization," in the legislation.

The state procurement office then issued an informal RFP to contract with a "reputable" third party to perform the initial assessment of purchasing activity. Neither the National Institute of Governmental Purchasing (NIGP) nor the National Association of State Procurement Officers (NASPO) were asked to participate, even though Alaska's state procurement director is a member of both professional organizations.



A single response was received from a company in Tucson, AZ. The assessment contract was awarded without any apparent investigation or justification, which is standard practice when only one proposal is received.

I personally participated in a three-hour telephonic, pre-proposal conference and commented on several of the proposed conditions of the RFP for privatization. Of particular interest was the state's intent to award federally funded construction and professional contracting activity to a contractor who would be exempted from the procurement law. The state had not checked on that with the Feds. Subsequently, that procurement activity was removed from the RFP.

In light of the "globalization" term used in the legislation, I was also concerned that only Alaska-based businesses would be considered for award. That condition was not removed from the RFP.

The privatization RFP was issued and after eight addenda and three months, two proposals were received, with only one accepted as responsive. After a letter of intent to award was issued, the worker's union representing the displaced employees was given one month to submit a "counter proposal" at their expense. That, apparently, is the "feasibility study" portion of the legislation. I think the outcome is a foregone conclusion.

Editor's Note: Beau Grant, CPPO, is a master instructor for the National Institute of Governmental Purchasing (NIGP) and president of Beau-Geste Enterprises.



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11/11/04 10:00 AM

For Immediate Release
August 17, 2004

Contact: Julie

PURCHASING AUTHORITY TO CUT COSTS FOR CITY **New technology will streamline purchase of supplies & equipment**

As part of his commitment to find innovative ways to better serve the public and provide key services, Mayor Mark Begich today announced the creation of a new city Cooperative Services Authority. The Authority will plan and control city purchases, lower the cost of purchases, and work with other entities to achieve even greater savings.

"This is a painless way to help the city deal with its finances," Mayor Begich said. "We know we can save millions by cutting the cost of procurement which enables us to deliver essential services."

In February, Mayor Begich announced the creation of the Division of Efficiency to streamline purchases and find cost-savings throughout the city. For the past six months, the DOE's staff of seven has been reviewing every purchase the municipality makes. Creating the Cooperative Services Authority makes it possible to initiate cooperative purchases of goods and services with other governments and academic institutions within Alaska.

In the first full year of operations, the city estimates the Authority can save a minimum of \$7 million. For example, by limiting product choices to the very basic requirements necessary for job performance, the Authority estimated the city could save \$400,000 on computers, \$300,000 on copiers, \$15,000 on pens and \$100,000 on file folders every year.

The Authority will support the Purchasing Department in negotiations with vendors for the best price, and then create a website catalog for city employees to purchase office supplies and other goods. Only vendors on the website will be available for employees to purchase from, creating the most efficient and least expensive procurement process the city has ever had.

An ordinance creating the Authority will be introduced at tonight's Assembly meeting. If it passes a public hearing on Sept. 7, the CSA will be established immediately and will have its technology in place within 90 days.

Once the Authority is established, other qualifying institutions will be able to enter into partnerships with the municipality for mutually beneficial cooperative arrangements. The city is already working with the University of Alaska and the Anchorage School District on this effort.

###

provided by Sen. Bunde

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Auditor urges spending clarification

PROCUREMENT CARD: Some of \$14.9 million charged by city employees was inappropriate.

By ANNE AURAND
Anchorage Daily News
Published April 13th, 2005
Last updated: April 13th, 2005 at 06:25 AM

City employees spent public money on lunches, birthday cakes, balloons, flowers and other "questionable" purchases, according to a recent internal audit.

Internal auditor Peter Raiskums said he doubts the purchases show corruption or irresponsibility. The problem is that no policy defines acceptable uses for the city's "procurement card," he said.

The "p-card" is basically a credit card issued to certain municipal employees to use on inexpensive goods, services, business- and travel-related expenses.

Most of the \$14.9 million spent by about 800 card-holders was legitimate, the audit says. But some purchases, such as gasoline for municipal vehicles, violated the policy. Some departments didn't properly document their purchases. And some employees made questionable donations to charitable organizations such as the Mayor's Charity Ball, NAACP or the Chugiak Grad Blast, the audit said.

According to the audit, most purchases did not violate policy. Raiskums didn't calculate the amount of questionable purchases.

He presented his audit to the Assembly on Tuesday night. It recommended that city executives clearly define what's appropriate.

"Maybe in my judgment, it's OK to buy a cake for an office function. Maybe in your judgment it's not," Raiskums said.

City Manager Denis LeBlanc said it's efficient to allow managers some discretion over purchases. They have to document the reasons. Most of these explanations are adequate, LeBlanc said.

The audit shows that employees spent nearly \$78,000 in restaurants and grocery stores in 2004. The city spent about \$6,279 on coffee-related purchases in 2004, including coffee, sugar, creamer and a grinder. The justification, Raiskums said, is that some departments entertain guests and want to offer them coffee. There's no policy against it.

About \$11,900 was spent on drinking water. One department paid \$3,106 on bottled water. Another paid \$772 for purified water in gallon jugs. LeBlanc said this is a great example of where a blanket rule would not work. City Hall, he said, has good water in its faucets. But some small maintenance offices do not, and managers should buy filters or bottled water for employees there, he said.

Employees paid \$2,506 for flowers, including \$91 for one funeral. Raiskums and LeBlanc said they didn't know whose funeral it was.

Employees paid another \$27,500 for pictures, and one department paid \$220 for frames for "mission and vision statements," the audit says.

The report does not name individuals or departments that made questionable purchases or failed to properly document purchases. Raiskums said his goal was not to identify anyone but to encourage managers to better define spending policies.

Daily News reporter Anne Aurand can be reached at aaurand@adn.com or 257-4591.

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Auditor urges spending clarification
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Provided by Mr. Dunca
4/19/05

This represents only the "Cost of Goods" portion of DGS' quarterly pilot contract audit. The final report will include all remaining sections: time to process, Alaska vendor utilization, workload comparison and mistakes/errors.

Cost of Goods Audit Report

The following is the Cost of Goods audit report for the second quarter of FY05 concerning Contract Award 2004-9900-4556, Procurement Services, Supply Chain Management, and Electronic Purchasing Tools.

Purpose

This audit is used as a benchmark for the Cost of Goods purchased by Alaska Supply Chain Integrators (ASCI) under contract award 2004-9900-4556. A copy of the contract award is available from the Division of General Services (DGS).

Methodology

ASCI data from the 2nd quarter FY05 (October through December 2004) has been compared to Southeast Region (SER) data. In an effort to develop a fair and random pool of comparison items, the MS Excel random number generator was used to create the comparison pool.

Four random samples of 100 line items purchased by ASCI during the second quarter FY05 were created to develop the comparison pool. Each pool of 100 was searched for comparison purchases to be evaluated against previous purchases made by the SER procurement office. To find comparisons, a search of previous SER purchases was conducted in the BuySpeed database by part number, similar make, and item description.

The cost of like items purchased by ASCI was then compared to SER procurement data.

Conclusion

During the period, ASCI processed a total of 1,176 delivery orders. Of this amount, 372 delivery orders were placed in accordance with state contracts. As a result of removing the 372 delivery orders placed in accordance with state contracts, this audit consists of 804 delivery orders with a total of 2,897 line items. The table below illustrates the dollar values for all delivery orders issued by ASCI during the period:

Type of Delivery order	Number of Delivery Orders	Dollar Value of Delivery Order
DO's placed	1,176	\$ 1,378,186.70
State Contract DO's placed	372	\$ 525,304.60
DO's in audit pool	804	\$ 852,882.10

Every effort was made to find 40 comparison purchases. However, as indicated in Attachment A, tables 1 & 2, the comparison pool of 40 contained a final total of 31 actual comparable purchases - nine line items were removed after further review indicated the items were not comparable. Of the 31 true comparisons, only 17 (table 1) line items could be compared to SER 4th qtr FY 04 purchases. The remaining 14 (table 2) comparison line items were last purchased by SER prior to the 4th qtr FY 04 period, and in two instances the last state purchases date back to 2003.

As indicated in tables 1 & 2, many of the comparison line items were purchased in different quantities. In addition, delivery time frames, freight costs and comparison time frames have not been studied in depth. The Division of General Services, after consultation with Legislative Audit, does not believe the data can be extrapolated in order to draw firm cost increase/decrease conclusions, but the data may serve to identify potential areas for improvement. The data documents less than 1% of the purchases made by the contractor during the 2nd qtr of FY 05.

Below are results based on the 31 comparison line items:

- 17 (Attachment A, Table 1) ASCI line items were compared within the SER 4th qtr data
- Total state expenditures (ASCI purchased) for the 17 line items was \$1,049.82
- Total state expenditures (SER purchased) for the 17 line items was \$1,016.20
- Total state expenditures increased by 3.31% for the 17 line items within the audit period. Additional cost to the state \$33.62.

- The remaining 14 (Attachment A, Table 2) ASCI line items could not be compared within SER 4th qtr data, but have been compared to the most recent SER purchase of similar items.
- Total state expenditures (ASCI purchased) for the 14 line items was \$552.74
- Total state expenditures (SER purchased) for the 14 line items was \$324.36
- Total state expenditures increased by 70.41% for the 14 line items within the audit period. Additional cost to the state \$228.38.

Table 1 Items purchased by SER in 4th qtr FY 04

ASCI PO No.	Date	Unit Cost	Order Qty	Freight Notes	State PO No.	Date	Unit Cost	Order Qty	Freight Notes	Change	Notes
1 751 6	12/13/04	\$ 4.08	5	Freight included	340589 3	08/18/04	\$ 3.22	1	Freight included	26.70%	Increase Different Vendors
2 905 1	12/22/04	\$ 29.50	6	Freight included	339591 14	06/24/04	\$ 25.25	20	Freight included	16.80%	Increase Different Vendors
3 341710 1	12/28/04	\$ 162.00	1	Picked Up	338768 3	05/13/04	\$ 154.99	2	Freight included	4.50%	Increase Different Vendors
4 331 1	11/10/04	\$ 19.20	1	Freight not included	338481 1	04/24/04	\$ 18.50	1	Freight not included	3.80%	Increase Different Vendors
5 422 2	11/17/04	\$ 195.00	1	Freight included	339018 2	05/28/04	\$ 183.00	1	Freight included	6.60%	Increase Same Vendor Price Increase
6 429 2	11/22/04	\$ 98.75	2	Freight not included	335062 18	09/09/04	\$ 92.33	1	Freight not included	7.00%	Increase Different Vendors
7 462 2	11/22/04	\$ 0.97	2	Freight included	333170 1	06/10/04	\$ 0.59	10	Freight included	64.40%	Increase Different Vendors
8 820 5	12/18/04	\$ 8.55	8	Freight not included	338238 2	04/14/04	\$ 8.51	10	Freight not included	0.01%	Increase Same Vendor Price Increase
9 341317 1	10/01/04	\$ 2.29	12	Freight not included	338551 14	04/29/04	\$ 1.95	4	Freight included	17.40%	Increase Same Vendor Price Increase
10 341387 1	10/08/04	\$ 3.01	10	Freight included	339623 10	06/28/04	\$ 1.39	10	Freight included	165.50%	Increase Different Vendors
11 341442 2	10/18/04	\$ 1.06	12	Freight included	339275 18	06/10/04	\$ 1.06	96	Freight included	0.00%	No Change Different Vendors
12 820 1	12/18/04	\$ 7.25	5	Freight not included	339551 3	06/23/04	\$ 7.25	5	Freight not included	0.00%	No Change Same Vendor
13 695 1	12/09/04	\$ 22.29	36	Freight included	339266 1	06/10/04	\$ 22.29	54	Freight not included	0.00%	No Change Different Vendors
14 341370 4	10/07/04	\$ 14.50	8	Freight not included	339360 9	06/16/04	\$ 14.50	20	Freight not included	0.00%	No Change Same Vendor
15 849 1	12/21/04	\$ 8.40	25	Freight included	338811 1	05/18/04	\$ 8.40	25	Freight included	0.00%	No Change Same Vendor
16 1058 2	12/30/04	\$ 8.97	12	Freight included	339545 9	06/23/04	\$ 8.97	12	Freight included	0.00%	No Change Same Vendor
17 341330 1	10/01/04	\$ 464.00	1	Freight not included	339207 1	06/08/04	\$ 464.00	1	Freight not included	0.00%	No Change Same Vendor
ASCI Purchase Total		\$ 1,049.82			SER Purchase Total		\$ 1,016.20				
				Additional Cost to State		\$	33.62			3.308% Increase	

Table 2 Items purchased by SER outside of 4th FY 04

ASCI PO No.	Date	Unit Cost	Order Qty	Freight Notes	State PO No.	Date	Unit Cost	Order Qty	Freight Notes	Change	Notes
1 1025 7	12/29/04	\$ 7.93	2	Freight included	338384 7	07/21/04	\$ 7.99	1	Freight not included	0.01%	Decrease Same Vendor Price Decrease
2 703 16	12/13/04	\$ 36	1	Freight not included	337494 8	02/23/04	\$ 1.32	24	Freight included	3.10%	Increase Same Vendor Price Increase
3 751 4	12/13/04	\$ 1.0	5	Freight included	340290 10	08/03/04	\$ 0.99	2	Freight included	81.80%	Increase Different Vendors
4 341461 5	10/20/04	\$ 418.0	1	Freight included	337590 2	02/27/04	\$ 209.00	5	Freight included	100.00%	Increase Different Vendors
5 341492 3	10/25/04	\$ 1.80	3	Freight included	337716 4	03/09/04	\$ 1.73	48	Freight included	4.00%	Increase Same Vendor Price Increase
6 367 2	11/11/04	\$ 9.99	1	Freight included	336109 1	11/12/03	\$ 8.99	3	Freight included	11.10%	Increase Same Vendor Price Increase*
7 341387 5	10/08/04	\$ 9.89	2	Freight included	334939 7	09/02/04	\$ 9.54	3	Freight included	3.70%	Increase Same Vendor Price Increase
8 341442 5	10/18/04	\$ 2.92	24	Freight included	337615 12	03/01/04	\$ 2.84	300	Freight not included	2.50%	Increase Different Vendors
9 573 3	12/02/04	\$ 2.39	4	Freight included	337716 4	03/09/04	\$ 1.73	48	Freight included	38.20%	Increase Different Vendors
10 341709 1	12/28/04	\$ 69.00	1	Freight not included	340093 3	02/25/00	\$ 56.99	1	Freight not included	21.10%	Increase Different Vendors
11 341492 5	10/25/04	\$ 6.61	3	Freight included	337617 1	03/01/04	\$ 2.19	60	Picked Up	201.80%	Increase Different Vendors
12 906 1	12/21/04	\$ 4.60	12	Freight included	334167 3	07/24/03	\$ 4.60	12	Freight included	0.00%	No Change Same Vendor**
13 273 1	11/08/04	\$ 7.95	6	Freight not included	337214 18	01/30/04	\$ 7.95	3	Freight not included	0.00%	No Change Same Vendor
14 657 6	12/07/04	\$ 8.50	4	Freight not included	337649 16	03/03/04	\$ 8.50	10	Freight not included	0.00%	No Change Different Vendors
ASCI Purchase Total		\$ 552.74			SER Purchase Total		\$ 324.36				
				Additional Cost to		\$	228.38			70.409% Increase	

* - The unit cost entered for ASCI on the Master was \$12.86, but should have been \$9.99 this sheet shows the correct price.
 ** - The unit cost entered for ASCI was the case cost (\$55.20/12), \$4.60 should have been the unit cost. The vendor also confirmed SER paid \$4.60.

ASCI Combined Purchase Total \$ 1,602.56 SER Combined Purchase Total \$ 1,340.56
 Combined Additional Cost to State \$ 261.99 16.348% Increase

Contractor Prepared Cost of Goods Analysis

In response to the state's request to provide information regarding significant price increases or decreases, ASCI prepared a detailed cost of goods analysis for the second and third quarters of fiscal 2005. The analysis is based on the 4950 item catalog that ASCI has built for the State of Alaska based on past purchases of items. The analysis includes 971 transactions during the time period covering 452 unique items. Another 25 lines were discarded by the contractor from the analysis based on apparent data anomalies. The state has not reviewed the contractor's methodology, data or analysis. The table below was provided by ASCI:

	2004 Q4	2005 Q1	To Date
Total Lines	306	600	972
# Lines Price increase	149	319	507
# Lines Price decrease	75	189	283
# of distinct products	183	333	451
Total Spend - Actual	\$ 25,070.30	\$ 152,381.95	\$ 184,768.54
Total Spend - Baseline	\$ 24,280.43	\$ 157,032.13	\$ 188,415.19
\$ increase/decrease	\$ 789.87	\$ (4,650.18)	\$ (3,646.65)
% increase/decrease	3.3%	-3.0%	-1.9%

Prices have been corrected for differences in Units of Purchase.

OMB Circular No. A-76
May 29, 2003

Provided by Mr. Dunca
4/19/05

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, DC 20503

May 29, 2003
(including technical correction made by OMB Memorandum M-03-20)

CIRCULAR NO. A-76 (REVISED)

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Performance of Commercial Activities

1. **Purpose.** This circular establishes federal policy for the competition of commercial activities.
2. **Supersession.** This circular supersedes Office of Management and Budget (OMB) Circular No. A-76 (Revised 1999), August 4, 1983; Circular No. A-76 Revised Supplemental Handbook (Revised 2000), March 1996; Office of Federal Procurement Policy Letter 92-1, "Inherently Governmental Functions," September 23, 1992; and OMB Transmittal Memoranda 1 through 25, Performance of Commercial Activities.
3. **Authority.** Reorganization Plan No. 2 of 1970 (31 U.S.C. § 1111); Executive Order 11541; the Office of Federal Procurement Policy Act (41 U.S.C. § 405); and the Federal Activities Inventory Reform (FAIR) Act of 1998 (31 U.S.C. § 501 note).
4. **Policy.** The longstanding policy of the federal government has been to rely on the private sector for needed commercial services. To ensure that the American people receive maximum value for their tax dollars, commercial activities should be subject to the forces of competition. In accordance with this circular, including Attachments A-D, agencies shall:
 - a. Identify all activities performed by government personnel as either commercial or inherently governmental
 - b. Perform inherently governmental activities with government personnel.
 - c. Use a streamlined or standard competition to determine if government personnel should perform a commercial activity.
 - d. Apply the Federal Acquisition Regulation (FAR), 48 C.F.R. Chapter 1, in conjunction with this circular, for streamlined and standard competitions.
 - e. Comply with procurement integrity, ethics, and standards of conduct rules, including the restrictions of 18 U.S.C. § 208, when performing streamlined and standard competitions.
 - f. Designate, in writing, an assistant secretary or equivalent level official with responsibility for implementing this circular, hereafter referred to as the competitive sourcing official (CSO). Except as otherwise provided by this circular, the CSO may delegate, in writing, specified responsibilities to senior-level officials in the agency or agency components.

B. CATEGORIZING ACTIVITIES PERFORMED BY GOVERNMENT PERSONNEL AS INHERENTLY GOVERNMENTAL OR COMMERCIAL.

1. **Inherently Governmental Activities.** The CSO shall justify, in writing, any designation of government personnel performing inherently governmental activities. The justification shall be made available to OMB and the public upon request. An agency shall base inherently governmental justifications on the following criteria:
 - a. An inherently governmental activity is an activity that is so intimately related to the public interest as to mandate performance by government personnel. These activities require the exercise of substantial discretion in applying government authority and/or in making decisions for the government. Inherently governmental activities normally fall into two categories: the exercise of sovereign government authority or the establishment of procedures and processes related to the oversight of monetary transactions or entitlements. An inherently governmental activity involves:
 - (1) Binding the United States to take or not to take some action by contract, policy, regulation, authorization, order, or otherwise;
 - (2) Determining, protecting, and advancing economic, political, territorial, property, or other interests by military or diplomatic action, civil or criminal judicial proceedings, contract management, or otherwise;
 - (3) Significantly affecting the life, liberty, or property of private persons; or
 - (4) Exerting ultimate control over the acquisition, use, or disposition of United States property (real or personal, tangible or intangible), including establishing policies or procedures for the collection, control, or disbursement of appropriated and other federal funds.
 - b. While inherently governmental activities require the exercise of substantial discretion, not every exercise of discretion is evidence that an activity is inherently governmental. Rather, the use of discretion shall be deemed inherently governmental if it commits the government to a course of action when two or more alternative courses of action exist and decision making is not already limited or guided by existing policies, procedures, directions, orders, and other guidance that (1) identify specified ranges of acceptable decisions or conduct and (2) subject the discretionary authority to final approval or regular oversight by agency officials.
 - c. An activity may be provided by contract support (i.e., a private sector source or a public reimbursable source using contract support) where the contractor does not have the authority to decide on the course of action, but is tasked to develop options or implement a course of action, with agency oversight. An agency shall consider the following to avoid transferring inherently governmental authority to a contractor:
 - (1) Statutory restrictions that define an activity as inherently governmental;
 - (2) The degree to which official discretion is or would be limited, i.e., whether involvement of the private sector or public reimbursable provider is or would be so extensive that the ability of senior agency management to develop and consider options is or would be inappropriately restricted;



FAX

**To: Honorable Lyda Green
Co-Chair, Senate Finance Committee
Fax (907) 465-3805**

**From: Mr. Matthew Trail
NASPO Association Director
(859) 514-9159
FAX (859) 514-9188**

Date: April 22, 2005

RE: NASPO Resolution against Outsourcing State Procurement Functions

Dear Senator Green,

Enclosed please find a cover letter from NASPO President John Adler and a resolution approved by the National Association of State Procurement Officials (NASPO) in regards to its opposition to Senate Bill 160 and House Bill 257 currently pending in Alaska's legislature.

NASPO is a member organization consisting of the state purchasing directors for the centralized procurement organizations in each state.

I appreciate the opportunity to acquaint you with NASPO's position. Please feel to contact John Adler at (602) 542-5308 should you wish more information on NASPO's position. Thank you.

*Matthew Trail
NASPO Association Director*



April 22, 2005

The Honorable Lyda Green
Co-Chair, Senate Finance Committee
State Capitol
Mail Stop 3100
Juneau, AK 99881

RE: Senate Bill 160 and House Bill 257
Outsourcing or Privatization of Public Procurement

Dear Senator Green:

On behalf of the National Association of State Procurement Officials (NASPO), I am writing to express our opposition to Senate Bill 160 and House Bill 257 currently pending in Alaska's legislature. NASPO is a member organization consisting of the state purchasing directors for the centralized procurement organizations in each state. While the membership is as diverse as the various laws, rules and regulations for each state, NASPO's members have overwhelmingly approved the attached resolution.

As you know, government and private enterprise are different. One is formed to serve the public interest; the other to earn profit. Procurement, for its part, is as much of a strategic function of government as taxation, policy development, or legislating. Indeed, procurement has the highest bottom-line impact of any government function and is therefore a key value creator for the tax-paying community.

Procurement's strategic importance, and its trust of public funds, requires stewardship by public servants held to standards developed within their respective state. To remove the core function of procurement from within the realm of government oversight presents a significant opportunity for waste, fraud, and abuse. It seriously endangers the goals of full accountability and delivering best value to the taxpayer.

On these grounds, NASPO believes outsourcing or privatizing state procurement functions is contrary to sound public and fiscal policy and recommends that you oppose Senate Bill 160 and its companion legislation, House Bill 257.

Sincerely,

A handwritten signature in black ink, appearing to read "John Adler".

John Adler, CPPO
President
National Association of State Procurement Officials, 2004-2005



**NATIONAL ASSOCIATION OF STATE PROCUREMENT OFFICIALS
A RESOLUTION OPPOSING PRIVATIZATION OR OUTSOURCING OF
PUBLIC PROCUREMENT**

WHEREAS, state procurement is an inherently governmental function;

WHEREAS, 50 state and 87,525 local jurisdictions spend \$1.1 - \$1.35 trillion annually of public funds procuring goods, services and construction;

WHEREAS, state procurement has a strategic role in every function of government;

WHEREAS, state procurement requires specialized skills, knowledge and ability;

WHEREAS, state procurement requires a transparent process with clearly stated rules to ensure equity and fairness in awarding contracts and instill public confidence;

WHEREAS, state procurement protects public funds from conflicts of interest, anti-trust violations, fraud and abuse;

WHEREAS, state procurement ensures that contracting decisions serve the best interests of the government and its citizens;

WHEREAS, state procurement efficiently provides government programs with essential, quality and durable goods, services and construction;

WHEREAS, state procurement seeks maximum competition to obtain best value for the government and its citizens;

WHEREAS, state procurement serves small and disadvantaged businesses through open and fair competition and training, networking, outreach, mentoring and other programs;

WHEREAS, state procurement serves to improve our environment by seeking environmentally safe and energy efficient products, recycling and landfill reduction;

WHEREAS, state procurement serves communities in each state through cooperative procurement programs; and

WHEREAS, state procurement officials must maintain public trust and confidence and be accountable to the public.

THEREFORE, BE IT RESOLVED THAT, any effort to outsource or privatize state procurement is opposed by the National Association of State Procurement Officials; and be it further

RESOLVED that outsourcing state procurement functions is contrary to sound public and fiscal policy; and be it further

RESOLVED that outsourcing state procurement presents an opportunity for significant waste, fraud and abuse.

Adopted by
National Association of State Procurement Officials
April 22, 2005



NATIONAL INSTITUTE OF GOVERNMENTAL PURCHASING
151 Spring Street • Herndon, Virginia 20170 • www.nigp.org
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Purchasing Manager
City of McKinney, TX

April 21, 2005

The Honorable Lyda Green
Co-Chair, Senate Finance Committee
State of Alaska
State Capitol, Room 516
Juneau, AK 99801-1182

Senator Green:

Enclosed is a Resolution, unanimously passed by the National Institute of Governmental Purchasing, Inc. (NIGP) Board of Directors, which gives brief specific reasons for our strong opposition to the privatization of the procurement and contracting function by the State Government of Alaska, per State Senate Bill No. 160.

NIGP is national and international educational association with over 2,300 agency members within the United States.

Sincerely,

Rick Grimm, CPPO, CPPB
Chief Executive Officer



NATIONAL INSTITUTE OF GOVERNMENTAL PURCHASING, INC.



**A RESOLUTION OPPOSING THE PRIVATIZATION OF THE
PROCUREMENT AND CONTRACTING FUNCTION OF STATE
GOVERNMENT IN ALASKA**

Having reviewed the main features of SB 160, a bill introduced into the Alaska Legislature, the goal of which is to privatize the Alaska State procurement function, the National Institute of Governmental Purchasing hereby states its opposition to this legislation for the following reasons:

Whereas, the public procurement function in Alaska has always been an inherently governmental function; and

Whereas, Alaska has the highest level of state spending per capita of any state in the nation, and is the recipient of the highest level of federal funding per capita of any state in the nation; and

Whereas, the underlying purposes of the public procurement function are to provide public confidence in the procurement procedures used by government agencies, to maximize to the fullest extent possible the use of public funds, to protect taxpayer funds from fraud and abuse, to foster effective broad-based competition, and to obtain in a cost-effective manner the materials, services and construction required by government agencies; and

Whereas, the unique benefits of the public procurement function include the promotion of a transparent system that ensures the fair and equitable treatment of all persons, that provides unfettered access to public dollars by all qualified suppliers, that leverages public spending to enhance socio-economic principles, and that assures integrity through ethical behavior; and

Whereas, the public procurement and contracting function is a public trust and, as such, the State of Alaska has previously adopted the Model Procurement Code for State and Local Governments to ensure that trust; and

Whereas, the complex and dynamic environment of the public procurement function requires government personnel with relevant, professional experience, continuity, and institutional knowledge; and

Whereas, the potential for inherent conflicts of interest between any firm providing privatized procurement functions and the state's vendor community must be recognized; and

Whereas, it is essential that those individuals who manage the public procurement and contracting function be fully committed to serving the public trust and fully accountable to the public rather than being committed and accountable to a for profit business;

NOW, BE IT THEREFORE RESOLVED, that the Board of Directors of the National Institute of Governmental Purchasing, Inc. (NIGP) opposes SB 160 and any action by Alaska Legislature to privatize the procurement and contracting function in Alaska State government.

I certify that the above resolution was adopted
by the Board of Directors of the National Institute of
Governmental Purchasing, Inc. at its official meeting on
the 22nd day of April, 2005.

Alaska Support Industry**ALLIANCE**

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**THE ALLIANCE**

... for responsible development of Alaska's Oil, Gas & Mineral Resources

April 19, 2005

The Honorable Lyda Green
Co-Chair Senate Finance
Room 520, Capitol
Juneau, AK 99801-1182

Dear Senator Green:

On behalf of the 380 member Alaska Support Industry Alliance I thank you for hearing SB 160 today. As you know the Alliance is a state-wide trade association founded in 1979 representing businesses, organizations and individuals that provide products and services to the oil, gas and natural resource industries. Because I will be arriving in Juneau about the time the Senate Finance Committee begins I thought it best to inform you of our position in writing should I not arrive in time to testify in person.

The Alliance Board of Directors fully supports SB 160 and the House companion bill HB 257. We believe it is prudent for the legislature to extend and expand the "pilot procurement" program. As former Senator Duncan stated in yesterday's House Judiciary Committee hearing it is in the "public interest to reduce overhead and the cost of government." Therefore, the Alliance believes this cost efficient private sector experiment in e-commerce should continue.

Again, on behalf of the Alaska Support Industry Alliance we urge your committee to pass SB 160.

Sincerely,

Larry Houle
General Manager
Alaska Support Industry Alliance

Cc: Senator Gary Wilken
Senator Con Bunde
Senator Fred Dyson
Senator Bert Stedman
Senator Lyman Hoffman
Senator Donny Olson

Provided 4/19/05

HB 160 Testimony

The Pilot Program authorized by HB 313 was rushed through in the final days of the 2003 Session. There were no measurements of success included in the bill, no benchmarks for comparison, and nothing to enable anyone to determine if the Pilot Program was a success or a failure.

Frankly, there does not appear to have been a lot of thought given to the Pilot Program. There was one hearing in House Finance, and one in Senate Labor & Commerce. The bill title is misleading. When we talked with legislators after HB 313 was passed, we were told it "just enabled e-commerce." In fact, it did much more than that.

Alaska Supply Chain Integrators (ASCI), who brought HB 313 forward, was the only "responsive" bidder, and was awarded a contract for Southeast DOT&PF. The State determined that they could save \$250,000 per year by eliminating the warehouse, and using fewer employees through the internet purchasing process. ASCI actually began work on July 1, 2004, and 10 state employees were laid off.

Since the Pilot Program began, only one quarter of performance has been audited. The second audit is currently in progress, and the third audit should be getting underway soon.

The Pilot Program is supposed to operate until June 30, 2006, when it is scheduled to expire. As the Department of Administration has testified, the jury is still out. It is too early to extend, or make permanent, the Pilot Program. This Bill, HB 160, should be held over while sufficient record is established to be able to intelligently make a decision whether the Program has been a success or not.

While Mr Hawkins has been quick to characterize the Pilot Program as a success, we have heard many negative reports regarding the Program and the service it is providing. For instance, we have heard that the actual cost of goods and services purchased through ASCI is as much as 16% greater than comparable costs made through the state's existing procurement processes. If true, this would mean that the state has paid more than \$2 million more than necessary for goods purchased through the Pilot Program. We have

heard that there are some 1500 invoices, valued at more than \$250,000, that remain unpaid because the Purchase Orders do not match the invoices. This affects the State's relationship with its suppliers, and denies many Alaska businesses timely payment, creating difficulties for those businesses. We have heard that, of the 7 orders for parts ordered through ASCI for the engine overhaul of the M/V Kennicott, 6 orders were shipped to Juneau and had to be re-shipped to the shipyard in Portland where the work was actually being done.

Of the original \$250,000 projected savings, about half was for eliminating the warehouse. But the warehouse has not been eliminated; there is no savings there. We have also heard that the ASCI employees working the Pilot Program are required to work extreme amounts of overtime; anticipated savings will be further reduced when those overtime bills are paid. It seems likely that the anticipated savings may not be borne out after the final audit – any savings will certainly be substantially less than the grand amounts “anticipated”.

In addition, since ASCI does not have to follow the State Procurement Code, their procedures do not meet the minimum requirements of federal purchasing, and they cannot order equipment, materials or services for construction projects funded or partially funded by federal monies. All purchases involving federal monies are still worked by state procurement personnel – there is no savings there.

There is also the matter of overhead, which was not budgeted. With a zero fiscal note, the State has had to assume the cost of overseeing the contract. The reality of the “anticipated”, promised savings seems more and more remote.

In summary, it is way, way too early to extend the current Pilot Program. From the anecdotal information we have heard (and formal, official audits are not yet available), instead of saving the State \$150,000, the Pilot Program will more likely cost the State additional millions of dollars. We think that the Pilot Program should run its course and have its effectiveness fairly and fully evaluated. We ask that you hold this Bill and check the progress and performance of the Pilot Program next year. We urge you to be sure to obtain direct testimony from Department of Transportation & Public Facilities, the “customers” of the Pilot Program, and get their impressions and opinions regarding the value of the Pilot Program's performance.



State Procurement Pilot

Review and Outlook

Provided by Mr. Hawkins
4/19/05



About ASCI

- AK Company, est. 1999
- ~150 employees: Anc, Prudhoe, Jnu, Wasilla
- Specialize in supply chain mgt
 - Web tools (full eCommerce platform)
 - Business process operation
 - Measurements & continuous improvement
- Public sector vision: “overhead” efficiency



Pilot Program Review

- ✓ HB 313 passed 2003 Session
- ✓ Initial pilot agency: DOT/PF SER
- ✓ Competitive RFP, award on 3/19/2004
- ✓ Procurement ops began 7/2/2004
- ✓ Warehouse ops began 10/1/2004
- ✓ I.T. tools live 10/1/2004
- ✓ Staff and cost reductions delivered



Cost Savings Achieved

Savings Source	Amount
Personnel Costs	\$ 163,089
Goods: Catalog Purchases*	36,412
Total, Goods + Operations	\$ 199,501

**Based on current catalog only, 3% cost reduction per 2Q-3Q 2005 comparison of 972 catalog transactions, continued through 6/30/2006.*



Cost of Goods Comparison

	2004 Q4	2005.Q1	To Date
Total Lines	306	600	972
# Lines Price increase	149	319	507
# Lines Price decrease	75	189	283
# of distinct products	183	333	451
Total Spend - Actual	\$ 25,070.30	\$ 152,381.95	\$ 184,768.54
Total Spend - Baseline	\$ 24,280.43	\$ 157,032.13	\$ 188,415.19
\$ increase/decrease	\$ 789.87	\$ (4,650.18)	\$ (3,646.65)
% increase/decrease	3.3%	-3.0%	-1.9%

**Based on DOT/PPF Southeast Region catalog transactions since web tools went live 10/1/2004.*



Historical “Firsts” Achieved

- First full cycle, full scope supply chain management privatization among state governments in U.S. (best of our knowledge)
- First e-Commerce PO issued on the Internet by State of Alaska
- First web based requisition approved on Internet by an SOA employee
- First web based receipt processed by an SOA employee
- First electronic catalog transaction by SOA



e-Commerce Numbers

Measurement	Value*
Nbr PO's Issued	1575
Nbr Requisitions Approved	2490
Nbr Vendors Transitioned	257
Nbr SOA Users Trained	112
Nbr Catalog Items Built	4940
Nbr Catalog Items Mapped	3769

*October 1, 2004 thru January 31, 2005



Custom e-Commerce Functions

- ❖ SOA authentication, acct. creation
- ❖ Real-time stock data
- ❖ Real-time accounting codes
- ❖ PO & Recpt integration with SOA
- ❖ Synchronization of vendors, depts, etc.
- ❖ At-Sea catalogs, other legacy support
- ❖ Geographic dimension added
- ❖ Customer notification functions



Lessons Learned

- Consider location, labor force and season
- Size the engagement scope adequately:
 - Adequate management and planning resources
 - Avoid partial agency engagement
- Avoid disconnect between operations analysis and contractor
- Sequence milestones differently, if possible
- Importance of Agency change leadership



The Opportunity Ahead

- Much of the hard work already done
 - Tools, rules and structure in place
- In position for an orderly, statewide expansion with operations in:
 - S-Central
 - Fairbanks
 - Juneau
- Substantial cost savings possible



Policy Advantages of Senate Bill 160 “Procurement Modernization”

- ☺ Achieve sustainable, meaningful reductions in overhead costs!
- ☺ Consolidate purchasing between state agencies – better prices on goods and services
- ☺ Help State participate in U.S. productivity gains of past decade
- ☺ Shift funds from overhead functions to programs such as education, public safety
- ☺ Reduce future State retirement liabilities