

KFH421.5  
L35  
A25  
(50-5)

ADMINISTRATIVE SURVEY OF THE TERRITORY OF HAWAII

Preliminary Report Number 5

PURCHASING SERVICES

June 15, 1950  
LEGISLATIVE REFERENCE BUREAU  
University of Hawaii

~~For Committee Use Only~~

ADMINISTRATIVE DEPARTMENT OF THE TERRITORY OF HAWAII

Pre

Prepared for the [redacted] [redacted] [redacted] al Efficiency  
of th [redacted] [redacted] [redacted]

PURCHASING SERVICES

LEGISLATIVE REFERENCE BUREAU  
UNIVERSITY OF HAWAII  
HONOLULU

STATE OF HAWAII

JUL 11 2019

LEGISLATIVE REFERENCE BUREAU

June 15, 1950  
LEGISLATIVE REFERENCE BUREAU  
University of Hawaii

Doc. # 100-10000

## TABLE OF CONTENTS

	<u>Page</u>
Introduction	
<b>I. Centralized Purchasing</b>	
Introduction . . . . .	1
Essentials . . . . .	1
Organization . . . . .	5
<b>II. Purchasing for the Territory of Hawaii</b>	
Introduction . . . . .	7
Analysis . . . . .	14
<b>III. Recommendations . . . . .</b>	<b>27</b>
<b>Appendices</b>	
A Comparative Price Table . . . . .	30
B Recommended Purchasing Law. . . . .	31
C Purchasing for the City and County of Honolulu. . .	38

## INTRODUCTION

About \$6,000,000 is spent each year by the Territory, under a decentralized system, for supplies, equipment and contractual services. Overhead costs add nearly \$100,000 more. According to standards developed in jurisdictions which have established centralized purchasing, expenditures could be reduced by from \$600,000 to \$1,000,000 and overhead costs by about \$35,000 by the adoption of a comprehensive centralized system.

An estimated 60,000 to 70,000 purchase orders are written every year by the various departments, each one costing about \$1.30 to prepare and process. The average value of a purchase order is less than \$1000, and about one-third are for less than \$10.

Most purchases, even of staple commodities, are made in small amounts, at prices that vary widely from department to department. In many cases the territory pays more than the City & County of Honolulu (operating under a centralized system) for identical items.

Beginning with a law that is neither definite nor comprehensive, a system characterized by excessive duplication and inefficiency has grown up. Only positive action on an over-all scale can establish a modern, efficient system.

## I. CENTRALIZED PURCHASING

### Introduction

Dr. Russell Forbes, former Commissioner of Purchase for New York City, and recognized expert in the public purchasing field, defines centralized purchasing as follows:

The delegation to one office of the authority to buy the supplies, material and equipment needed by all the operating branches of an organization. . . . This is in contrast to decentralized purchasing in which each operating branch buys material for its own use.<sup>1</sup>

Centralized purchasing, widely accepted in business and government, was first applied in a state organization in 1910, when Oklahoma adopted a state-wide system. Today 42 of the 48 states have centralized their purchasing, although the systems vary in function and scope.

The principal reason for such widespread adoption of centralized purchasing is that it is more economical. Business turned to it because of a desire to increase profits by cutting costs and one effective way was to eliminate waste and duplication in the buying procedure. Governments adopted the centralized system because it represented more efficient management, although occasionally their actions have been hastened by graft or corruption previously existing in the buying process.

A centralized system, of itself, insures neither honest buying nor efficiency in purchasing, but it does make it possible for chief administrators to be fully informed of the purchasing process and to know at all times where to fix responsibility in the event of inefficiency or dishonesty.

### Essentials

There are several essential principles of a centralized purchasing system,

most of which must be present in order to obtain the best results. A brief discussion of each follows:

1. Standardization of commodities. This means reduction in the number of kinds of commodities purchased, and is one of the most important aspects of the system. By standardization of the great mass of staple articles, needs can be consolidated and substantial savings realized. In a decentralized system various departments buy almost identical items in small amounts when, by standardization, large purchases could be made of a quality and design to serve all needs.

2. Development of specifications, one element of the standardization process. Specification buying puts the purchasing process on as objective and scientific a basis as possible. The alternative, brand name buying, rules out every product but the one named, even though equal or better results might be obtained at lower cost from other brands. Tests which reveal the qualities and performance of every widely used product have been developed and are being used regularly by many private and public agencies. Brand name buying with public funds sharply limits competition and penalizes the purchaser. Buying by specifications broadens the opportunity for competition and helps insure that the buyer will receive the most value for the money spent.

3. Open competitive bidding. In a centralized system, purchases are usually made in larger quantities, justifying the time or money involved in making the purchases, while small purchases may not justify the time and money spent in getting wide competition in bidding. Large volume purchasing makes it possible for technically trained personnel in a central system to keep fully informed of vendors and their products. However, if purchases are small and infrequent, as with departmental buying, the buyer is very likely not aware of all new developments in the field and it may not be worth the vendor's time to keep him informed.

4. Knowledge of market conditions. Technically trained and experienced personnel, devoting their full time to purchasing, have an opportunity for continuous analysis of market conditions, and, in anticipation of pricing trends, can purchase accordingly. With departmental purchasing, when purchasing is a part-time function of employees with no special training, purchases are often made when prices are seasonally or abnormally high.

5. Large quantity purchasing, one of the most widely recognized advantages of centralized purchasing. In most cases, lower prices can be obtained by larger purchases. It is almost impossible to consolidate purchases to any degree under a decentralized system, since there is no machinery for standardization and inter-departmental buying. Buying on a departmental or divisional level means relatively small purchases with the consequent higher unit costs.

6. Careful inspection of purchases, an aspect of purchasing which is sometimes overlooked. Regardless of how the buying is done, careful inspection should be practiced to insure that payment is made only for deliveries that have been received in good condition and are in accordance with specifications. In a centralized system, inspection can be supervised by the purchasing agent, with someone in the office being trained in this particular function.

7. Prompt payment of bills. Some vendors offer discounts for payment within a specified time limit. If no particular attention is given to the purchasing function, the discount may be lost because of the time consumed in the processing of vouchers. If purchasing is centralized, especially if it is an integrated part of fiscal administration, the system can be geared to make certain that full advantage is taken of all discounts.

8. Warehouse and stockroom control. Although this aspect of purchasing is often overlooked, it has been reliably estimated that "four times as much could be

saved by a state through central stores properly operated as by centralized purchasing alone."<sup>2</sup> In a decentralized system some departments buy only in small quantities because of sharply limited storage facilities. This usually means higher unit costs and excessive paper work in ordering the same item over and over again, and may mean work stoppages while waiting for new supplies. On the other hand, many departments overstock to the extent that an unreasonable amount of capital is "frozen" in supplies for future use. Overstocking usually means ultimate waste, due to price changes, loss, deterioration or obsolescence. In a centralized system the purchasing agent is in a position to keep informed of departmental needs. If central storeroom facilities are provided, adequate stocks can be maintained and still take advantage of opportunities for savings through bulk purchases.

9. Centralized transfer and disposal. There is much to be gained through a central transfer and disposal system, particularly with respect to equipment. Many discarded items can be used by another department or disposed of at a profit. The purchasing agent, because of his related duties and responsibilities, is best suited to handle transfers between departments and also best informed as to likely markets for discarded property.

10. Reduction in personnel and overhead costs involved in purchasing. In a decentralized system there may be dozens of persons devoting some portion of their time to purchasing. Under a centralized system, the number of persons engaged in purchasing is sharply reduced and purchasing made their principal respon-

---

<sup>2</sup>Forbes, Russel, Governmental Purchasing, Harper & Brothers Publishers, New York and London, 1929, p. 1.

sibility. This makes possible reducing salary costs and also the hiring of persons with broad training and experience in the techniques and administration of purchasing.

Overhead costs are less due to the substantial reduction in the number of transactions which take place. When a few large purchases replace many small ones, there are fewer individual contacts with vendors, fewer purchase orders to prepare and process, fewer deliveries and invoices coming in, fewer vouchers to be handled, fewer encumbrances to be entered on the books, fewer warrants to be prepared and fewer bookkeeping entries to be made, checked and audited. There may be some increases in other directions--for example increased accounting controls--but this is more than offset by less paper work in other steps in the process.

#### Organization

Because of the nature of its duties, the central purchasing office is often made a division of an integrated finance department. A 1947 publication of the Council of State Governments reports that 14 states have adopted this organization. Such a plan has several advantages.

1. Close coordination of related functions. Purchasing is closely related to other fiscal operations, such as pre-audit and accounting, and closer coordination can be maintained if all fiscal functions are in one department.

2. Better over-all administration. In the creation or expansion of a government service, the tendency is often to establish independent bureaus or departments directly under the chief administrator. With each action of this sort, the organization becomes more haphazard and unwieldy, with an excess number of functions reporting directly to the chief executive. It is advisable in the interest of efficiency in management, therefore, that similar functions be grouped together in a single department whenever possible.

Other possible organization plans for a central purchasing office, in use in various states and cities, are summarized as follows:

1. Independent status, directly under the chief administrative officer.
2. Under an appointative or elective board or commission, such as an "administrative board" or "executive council."
3. A division under the tax commissioner.

## II. PURCHASING FOR THE TERRITORY OF HAWAII

### I. INTRODUCTION

#### Supplies Division

The 1933 session of the legislature created a supplies division in the bureau of the budget. The law states that the division is to

purchase . . . such governmental supplies and equipment for the territorial departments, boards, commissions and offices as the governor may by rule and regulation prescribe.<sup>1</sup>

On October 10 of the same year the governor implemented this legislative authority by issuing an executive order saying that

All supplies and equipment required for all branches of the government on the island of Oahu . . . will be purchased by the supplies division.<sup>2</sup>

The law also specifies a procedure which must be followed in all purchases over \$2500, which includes legal advertisements to call for bids and the letting of a written contract to the "lowest responsible bidder."<sup>3</sup>

Personnel of the supplies division are appointed by the budget director and responsible to him. At present, the work is handled by a purchasing administrator and purchasing executive. The division's expenditures for the current year will run about \$11,500, most of which is salary costs.

With the exception of some so-called standard forms, the division does no actual purchasing for the territory, and only certain classes of

---

<sup>1</sup>Sec. 1635, Revised Laws of Hawaii 1945.

<sup>2</sup>Executive order of the governor of Hawaii issued October 10, 1933.

<sup>3</sup>Sec. 352, Revised Laws of Hawaii 1945.

requisitions clear through the division. At regular intervals, however, it circularizes the departments to obtain their estimated requirements of certain specified items for the next period. It then obtains bids on these items and also obtains bids on any other items upon request of a department. The division regularly obtains prices for the following items:

- Food products
- Office supplies
- Gas and oil
- Tires and tubes
- Certain printed supplies,  
such as letterhead  
paper, envelopes and  
standard forms

In general, the official price lists contain only the low bid received on each item. This is true for food prices, issued monthly; gas and oil prices, issued quarterly; and letterheads and printing prices, issued yearly. For certain office supplies, however, issued twice a year, the practice is to include a bid for every brand name available, rather than merely the low bid, thus permitting each using agency to choose the brand it prefers. For example, the current office supplies price list includes 15 brands of letter size typewriter carbon paper, ranging in price from \$1.96 to \$4.50 per box, depending on the brand and quantity purchased. There are ten brands of letter size pencil carbon, twelve brands of typewriter ribbons and seven brands of legal size stencils.

The division has a revolving fund--with a \$25,000 appropriation for the current biennium--with which it purchases certain standard forms. These, in turn, are distributed to the departments upon requisition. Requisitions for equipment and certain supplies are checked by the division. In other cases, the division's activities are confined to the issuance of price lists, and it has no further direct knowledge of actual

purchases made by the departments.

### Health Department

Purchasing procedure in the health department is typical in many ways of that found in the larger territorial departments, and illustrates the degree of decentralization common to governmental purchasing for the territory.

Purchasing for Kalaupapa and Hale Mohalu is handled by a purchasing officer in the department's business office who purchases all supplies and equipment for the settlements and also handles personal shopping for the patients. Shipments to Kalaupapa are made weekly, with some fresh food products being flown in daily from Molokai. Most other food purchases are contracted for from the price list issued by the bureau of the budget.

In general, other bureaus within the health department handle their own purchasing. The procedure for purchases under \$2500 begins when the bureau makes out a requisition and forwards it to the business office. In the case of equipment purchases, the requisition is routed to the budget bureau for check and approval. This department also gets budget bureau approval for items included on the official price list but which are purchased from the open market.

The business office encumbers<sup>4</sup> the bureau's account for the proper amount, makes out a purchase order in accordance with the requisition and sends the original to the vendor and copies to the bureau. Delivery is

---

<sup>4</sup>An accounting term signifying that funds have been obligated for a certain purpose in advance of the time when the actual expenditure will be made. Encumbrance accounting shows accurately the unobligated balance of an appropriation and guards against over expenditures. The territory maintains its accounts on a cash basis, showing expenditures only after they are actually made.

usually made directly to the requisitioning agency, which then signs a copy of the purchase order and returns it to the business office. The business office makes out a voucher, which is forwarded to the auditor, along with a copy of the purchase order and invoice. The auditor pre-audits the purchase and sends a warrant to the vendor. By means of this system, the central office exercises some control through its encumbrance system, but no control over the price paid, the vendor, the size of the purchase, or the kind of commodity bought. Purchases in excess of \$2500 are handled by the central office, which advertises for bids and draws up the contracts for approval by the auditor.

At one time, the department maintained a central storeroom for office supplies. It was financed by a revolving fund which was not approved for the current biennium, and stocks are now very low. The storeroom carried standard office supplies and furnished them, on requisition, to all bureaus, including branches on all the islands.

The department has a central garage,<sup>5</sup> but stocks few automotive supplies. Instead, the motor repair superintendent makes a special buying trip whenever parts are needed, buying even common items individually.

For the purchase of equipment, budget bureau approval must be obtained. The requisition for such a purchase is routed through the budget bureau, where it is checked for price and stamped if approved. The department also files quarterly "Request for Allotment" forms with the budget bureau, which show the expenditures and balance in the appropriate appropriation account.

---

<sup>5</sup>In addition to the central repair garage maintained by the health department, a similar garage is maintained by the department of public works, several by the outlying institutions, and at the prison. There may be others.

They list individually each anticipated equipment purchase, and, if there is then any change in anticipated purchases, another allotment request must be filed. A copy of this approved form is filed with the auditor, who checks each equipment voucher against it, as well as checking the requisitions for budget bureau approval.

About eleven employees in the business office are involved in purchasing, in direct buying for Kalaupapa or Hale Mohalu, for the automotive repair section, in supervision and policy matters, especially those concerning larger purchases, in storeroom supervision, in the encumbrance of accounts, and in clerical work. Most of the actual contact work is done in the individual bureaus, but a majority of the clerical work is handled in the central office.

#### Disposal of Property

The budget bureau director, the treasurer and the superintendent of public works constitute the territorial board of disposal. By executive order of the governor, dated October 10, 1933, they are specifically charged with responsibility for the disposal of "non-expendable" territorial property, defined as that costing more than \$2.00 and having a probable life of at least one year.

In order to dispose of such property, it is required by law that the department head concerned file with the board a notarized application containing the following information:

1. Name and official position of applicant.
2. Kind of property and full description thereof.
3. Purposes for which such property is used.
4. Estimated value of such property.

5. Reasons for selling, exchanging or otherwise disposing of such property.

6. What offer, if any, has been made for such property.

The application, in the form of a letter, is routed through the supplies division, where the purchasing executive studies the application, and, if on Oahu, makes a personal investigation of it. After he makes recommendations, it goes to the board of disposal. In practice, this means that the application, with recommendations, is routed to the board members. In most cases the recommendations of the purchasing executive are approved by all board members, who find it necessary to meet only occasionally on policy matters, rather than meeting to discuss individual applications. If the application is approved, the department is usually authorized to dispose of the item in the manner which it proposed. Many such items are pieces of equipment which are disposed of by trade-in on new models. When cash accrues from the disposal, however, it is credited to the department's appropriation and becomes available for expenditure by the disposing department. Although such credits are subject to control of the budget bureau's allotment system, the legislature has no voice in the purposes for which such funds may be put. The board receives 16 to 20 such applications monthly.

Any two departments who agree to a transfer of property can do so upon their own initiative, or the budget bureau can initiate such transfer. Ordinarily, the budget bureau would become aware for the need for transfer only through requests for disposal, and the various departments do not often initiate transfer.

FIGURE I

PRESENT PURCHASING PROCEDURE

Territory of Hawaii

Using Division	Using Department	Supplies Division	Auditor	Vendor
<p>(1) Prepares requisition and sends to departmental purchasing officer.</p> <p>In some cases prepares purchase order and sends directly to vendor. (Consults price list issued by supplies division in some cases.)</p> <p>May or may not encumber funds.</p>	<p>(2) Receives requisition. May supply item from stock. Otherwise prepares purchase order and sends to vendor. (Consults price list issued by supplies division in some cases.)</p> <p>May or may not encumber funds.</p> <p>Gets prior budget bureau allotment and requisition approval for all equipment purchases.</p> <p>Advertises for bids and enters into formal contract for purchases over \$2500.</p>	<p>(3) Obtains estimated departmental needs periodically on certain items and gets bids from vendors.</p> <p>Notifies low bidder. Prepares lists of commodities, vendors and bids quoted and forwards to departments and auditor.</p> <p>Approves equipment purchase requisitions.</p>		<p>(4) Receives purchase order from department or division.</p> <p>Sends commodity specified and invoice to purchaser.</p>
	<p>(5) Receives item and invoice from vendor.</p> <p>Notes receipt on purchase order.</p> <p>Prepares voucher or checks voucher prepared by division for payment of claim.</p> <p>Sends copy of purchase order, invoice and voucher to auditor.</p>		<p>(6) Receives copy of purchase order, invoice and voucher from department.</p> <p>Pre-audits for correctness, procedure and availability of funds.</p> <p>If approved, prepares a warrant and sends to vendor.</p> <p>Signs contracts and encumbers funds for purchases over \$2500.</p>	<p>(7) Receives warrant issued by auditor.</p>

## ANALYSIS

### Introduction

From 60,000 to 70,000 purchase orders each year are prepared by territorial departments to purchase between \$5,000,000 and \$6,000,000 worth of supplies, equipment and contractual services.

The present system by which this money is spent is marked by divided responsibility, duplication of effort and an almost complete absence of scientific standards and effective controls. Little effort is devoted to a study or analysis of market conditions. There is standardization of purchases in only a few items. Specifications are developed individually as the need arises, if at all. There is bulk buying by only a few of the larger departments, and only for a few standard commodities.

On the basis of present evidence, it is difficult to determine if adequate inspection is made of most purchases, but it seems that in some departments purchase orders are made up only after an invoice is received, or are altered to match the invoice. There is no way to tell what stocks are maintained by the divisions and departments since most departments order staple items in an informal way, with only a vague knowledge of present supplies. There is evidence that many departments--some because of the lack of storage facilities--keep on hand inadequate supplies of staple items. There is no way of knowing how many unnecessary or uneconomic purchases are made, most of which are the result of a system in which persons untrained in purchasing techniques are in charge of buying.

Such a system is costly to maintain. Although impossible to determine exactly, a conservative estimate would be that the territory spends between \$80,000 and \$90,000 each year in the purchasing function. The great bulk of this money goes for salaries of the hundreds of persons

contacting vendors; getting prices; deciding what and where to buy; typing requisitions, purchase orders and vouchers; preparing price lists; filling out and checking forms; approving payments; receiving shipments; checking invoices; and making out warrants.

It costs the territory about \$1.30 to write and process each purchase order. This means that the territory spends a little more than one and one-half per cent of the amount of total purchases for overhead costs. This is higher than any one of the 12 states whose averages were reported in a 1941 study of purchasing methods.<sup>6</sup> The average of the 12 states studied was less than one per cent. The City and County of Honolulu spends eight-tenths of one per cent.

In line with these standards, the Territory should be spending between \$45,000 and \$55,000 a year, or about 40 per cent less than is presently being spent. This does not take into consideration the additional savings that could be realized by more scientific purchasing.

#### Divided Responsibility and Duplication of Effort

Constructive economy can be effected only by unifying the divided responsibility and eliminating the extensive duplication of effort that now exists. In spite of the fact that, according to law and executive order, Hawaii has had a centralized purchasing system for the past 17 years, in practice such a system is non-existent. Each department and agency has its own system and procedures--certain large departments securing some of the advantages of centralization, but most securing few, if any. As an example, let us look at the following vouchers for the purchase

---

<sup>6</sup>Russell Forbes, The Organization and Administration of a Governmental Purchasing Office, (1941), p. 38.

of office supplies which cleared through the auditor's office during the month of March, 1950. All of the following purchases were by one department:

TABLE I

<u>Division</u>	<u>Quantity</u>	<u>Item</u>	<u>Unit Price</u>	<u>Total Price</u>
A	1 gr.	Blotters (4x9 $\frac{1}{4}$ )	\$ .75 gr.	\$ .75
B	1 gr.	" "	.85 gr.	.85
C	2 doz.	" , desk (19x24)	.65 doz.	1.30
A	100	" " "	.4104 doz.	3.42
D	2 doz.	" " "	.60 doz.	1.20
E	2 bxs.	Carbon paper, (8 $\frac{1}{2}$ x13)	2.85 bx.	5.70
F	1 bx.	" " (8 $\frac{1}{2}$ x11)	4.50 bx.	4.50
C	1 bx.	" " "	4.50 bx.	4.50
F	5000	Envelopes, #10-24	6.18 M	30.90
A	1500	" , #6 3/4 - 24	3.92 M	5.88
A	1000	" , #10	6.74 M	6.74
F	500	" , 6 3/4	4.18 M	2.09
C	100	" , clasp, 9x12	18.90 M	1.89
C	100	" " , 9 $\frac{1}{2}$ x12 $\frac{1}{2}$	20.35 M	2.03
A	500	Index cards, 5x8, unruled	.25 c	1.25
A	1500	" " " "	.25 c	3.75
A	1500	" " , 3x5, "	.095 c	1.43
C	3 lbs.	Ink, mimeograph	2.25 lb.	6.75
F	1 pt.	" , writing, blue-black	.54 pt.	.54
A	4 qts.	" " "	1.00 qt.	4.00
F	13 rms.	Paper, mimeo, 8 $\frac{1}{2}$ x11, 16#, white	1.36 rm.	17.68
A	10 rms.	" " " " "	1.36 rm.	13.60
A	6 rms.	" " , 8 $\frac{1}{2}$ x13, " "	1.58 rm.	9.48
C	12 rms.	" " " " "	1.58 rm.	18.96
F	8 rms.	" " " " "	1.58 rm.	12.64
A	4 ctns.	Paper clips, #1 gem	.62 ctn.	2.48
D	1 M	Paper cups, 5 oz.	8.85 M	8.85
G	3 cs.	" " , 4 oz.	11.67 cs.	35.00
E	1 M	Tacks, thumb, #3	1.50 M	1.50
A	4 rls.	Tape, scotch, 3/4x1296	.81 rl.	3.14
H	2 rls.	" " , 3/4x1296	1.00 rl.	2.00
F	24 rls.	" " , 3/4x2592	1.44 rl.	34.56
C	1 rl.	" " , 3/4x2592	1.44 rl.	3.14

TABLE I (cont.)

<u>Division</u>	<u>Quantity</u>	<u>Item</u>	<u>Unit Price</u>	<u>Total Price</u>
I	1 cs.	Towels, paper	\$ 6.10 cs.	\$ 6.10
B	4 cs.	" "	9.65 cs.	38.60
H	12	Typewriter ribbons	.925 ea.	11.00
C	12	" "	1.00 ea.	12.00
A	12	" "	.667 ea.	8.00

The department wrote 21 purchase orders and at least 9 vouchers to purchase \$328.30 worth of office supplies. Each purchase order was for an average of around \$16.00 worth of supplies. (The average value of purchase orders for office supply items for all departments during the month was \$24.00.) At the territorial average of about \$1.30 overhead for each purchase order written, this particular department spent about \$27.00, or almost seven per cent of the value of the commodities in acquiring them.

In this department at least 20 persons, many of whom are highly trained technicians in their own field, are involved in purchasing, usually as a side line to their other duties. Each division has wide latitude in deciding what and where to buy and what price to pay. Except that it concerns a large department, the example is not unusual among territorial agencies.

Looking at duplication and divided responsibility from the point of view of the item purchased, we find that 11 purchases of 8<sup>1</sup>/<sub>2</sub>x13 carbon paper went through the auditor's office in March, each buying an average of between 5 and 6 boxes of paper. One of the largest departments sent through 3 vouchers--one for two, one for three, and one for four boxes. There were nine purchases of letter envelopes during the month, and an equal number of purchases of large clasp envelopes.

Twelve individual purchases of typewriter ribbons were made, each for an average of 17 ribbons. Four of the orders were for one or two ribbons only. At this monthly rate, typewriter ribbons would be purchased 144 times a year. The same large department which made three small carbon paper purchases during the month made three typewriter ribbon purchases within an eight-day period--one for one ribbon and the other two for twelve ribbons each. Scotch tape was bought twenty times, an average of six rolls being acquired each time. These are but a few examples. The situation is representative of not only the office supply field but of other fields as well.

Since so many persons are responsible for buying, few have time or facilities for testing or developing standard specifications. Nor should the average territorial buyer be expected to perform such functions, since, in many cases, his principal duties do not require him to be familiar with buying techniques. Lack of standardization is evidenced by the fact that the territory officially approves (through the supplies division price list) 15 brands of  $8\frac{1}{2} \times 11$  carbon paper, with great price variations, and with apparently no attempt to test their performance and require the employees to use one or two of the standard brands. The fact that a few departments have standardized office supplies, including carbon paper, indicates that it is possible, although not without centralized responsibility.

Duplication is further evidenced by the fact that slightly more than half the purchase orders written are for amounts of less than \$100, and about one-third are for less than \$10. A majority of these small purchases arise because each department or division, responsible for its own supplying, buys the same staple commodity over and over during the year. In some fields larger purchases are the rule. Each food purchase order, for

example, averages over \$200 in value.

### Prices Paid

Besides reflecting an unusually high purchasing "overhead," the territorial system reveals a great variety and a comparatively high level of prices paid.

Referring again to TABLE I, which are purchases paid for by one department during March, we find the following price variations: Two purchases of blotters were made, one for 75¢ and one for 85¢ a gross. (The official supplies division quotation for the period was 85¢. The cheaper purchase was made from a different vendor than that listed.) Three purchases of desk blotters were made, at three different prices per dozen--42¢, 60¢ and 65¢. They were bought from two vendors, one of which--not the one on the official list--offered two different prices.

Prices on 8<sup>1</sup>/<sub>2</sub>x11 carbon paper on the official list range from \$1.96 to \$4.50 per box, depending on brand and quantity bought. By virtue of buying one of the most expensive brands and by buying one box at a time, this department paid \$4.50--the highest possible price--for each box. The least expensive would have been less than half the amount paid. At the same time, another territorial department, buying one brand in large quantities, was paying \$2.75 per box. The City and County of Honolulu was paying \$2.57 a box, and buying one brand for all departments, while the territory was paying at least \$3.00 for the identical product. The State of Minnesota buys 5 boxes of carbon paper for less than this territorial department pays for one box.

Prices paid for typewriter ribbons varied from \$8.00 to \$12.00 a dozen, as shown in TABLE I. The department under discussion was paying

\$1.36 a ream for 8 $\frac{1}{2}$ x11 white mimeograph paper, while another department, which has centralized purchasing to a certain extent, was paying 75¢--or 45 per cent less--a ream for paper of the same size and weight. Paper towels were purchased for two prices, \$6.10 and \$9.65 per case. During the same period, nine individual purchases of paper towels were made by all departments for eight different prices, ranging from \$4.60 to \$12.80 a case.

Many more examples are set forth in APPENDIX A. They are no particular reflection on any one office or department involved in the purchasing procedure, but merely on a confused and inefficient system. It should not be assumed that the low price is necessarily the best buy, since quality must be taken into consideration. A higher priced product of better quality may be the wisest purchase, but, with the present system there is no adequate way to determine this. Only with trained personnel in charge of all purchases, can general agreement be reached on which buy is the best.

Office supplies have been singled out for illustrative purposes for several reasons: They are an important expenditure item, for which it is estimated that the Territory spends more than \$100,000 a year; they are items used in every department and lend themselves easily to comparison; they are items in which large savings can usually be effected by centralized purchasing. During its first year of operation under centralized purchasing, the City and County experienced a decrease of 41 per cent in the cost of office supplies, thus saving enough in this one field to finance the operations of the central purchasing office for the year.<sup>7</sup>

---

<sup>7</sup>First Annual Report of the Bureau of Purchase and Supplies for the City and County of Honolulu, May 1, 1939, to December 31, 1939.

There is no reason to believe, however, that in other fields--automotive supplies and repairs, for example--there is not as great or greater fluctuation in price, since in most other fields there is not even an official price list for use as a guide in territorial buying.

Other savings effected by the City and County during its first year with centralized purchasing included 19 per cent of the cost of office equipment and furnishings, 38 per cent in printing and binding costs, 23 per cent in tires and 7 per cent in lumber. It is estimated that from 10 to 30 per cent savings are realized by most jurisdictions with the establishment of such a system. Adapting these figures to the Hawaii situation, savings amounting to between \$600,000 and \$1,800,000 could be expected. The territory's savings probably would not reach the maximum amount mentioned since a few of the largest territorial departments have secured some of the benefits of centralization through departmental action and also because the budget bureau price lists have served to keep purchase prices in line in some fields of buying.

#### Widespread Competition

An important responsibility in the spending of public funds is to secure wide competition in which everyone with products to sell is given an opportunity to compete. Although no study has been made of this particular phase of present territorial operations, it should be noted in passing that the City and County increased the number of vendors with whom it was doing business by 250 per cent--from 232 to 600--during the first nine months of its centralized purchasing system.

#### Financial Controls

As can be seen from FIGURE I, present procedures are such that

there is no effective control over all purchases to insure wisdom of purchases or availability of funds, except as individual departments have initiated such a program. Partial controls exist at the following points:

1. Supplies division price lists of certain commodities (food products, office supplies, gas and oil, stationery and some standard forms) help to fix prices or provide a guide for the departments to follow.

2. Copies of these price lists go to the pre-audit section of the auditor's office and check is made of some vouchers against the applicable price list.

3. Requisitions for certain classes of items, notably equipment, go through the budget bureau for approval.

4. The budget bureau's allotment system exerts control over equipment purchases, since an allotment for each individual equipment purchase must be approved before payment can be made.

5. The pre-audit of purchase orders and vouchers by the auditor before warrants are issued is intended to check for the following:

- a. availability of funds
- b. mathematical accuracy
- c. authority for purchase
- d. proper classification of accounts

6. All contracts--required by law for purchases over \$2500--must be approved by and filed with the auditor and vouchers for amounts over \$2500 are checked against such contracts.

Certain weaknesses are present in all of these checks and controls.

#### Price Lists

The supplies division price lists are but a step in the direction of centralized buying and are only partially effective. Gasoline and oil bids obtained by the division apparently help to reduce prices paid for these commodities. Most territorial agencies in Honolulu take advantage of such prices, many through bulk purchases made by the public works department. However, out of 19 purchases of gasoline on Oahu during March, eight were for prices in excess of the bid price or the price charged to outside departments by the department of public works. Prices paid

ranged from 20.9¢ to 31¢ per gallon. The low bid is 20.9¢ and public works charges 25¢, which includes its handling costs. Most of the higher prices were paid by agencies located outside the downtown Honolulu area, although some were apparently in the downtown area.

In the purchase of tires, four out of 18 purchases made during a part of March were for prices above those on the price lists.

Two large departments concerned with food purchases state that they usually buy from the official price lists. The university does not buy from the price lists, however, and reports savings in price and better service from vendors by doing their own purchasing.

In the office supply field, another look at TABLE I will illustrate usual procedures. Out of the 38 individual purchases, 13 vary in price from the supplies division price list, some being lower and some higher. Out of more than 200 purchases of office supplies by all departments during part of March, about one-fourth differed in price from the official list. In another 20 per cent of the items, it would be difficult to say how closely the prices corresponded, since the physical properties of the articles varied slightly, the brand was different, or insufficient information was given on the purchase order or voucher for accurate comparative purposes. All of these purchases were cleared by pre-audit before payment was made.

The lack of standardization and price control is readily apparent. It is impossible for the auditor's office to stop all non-conforming or questionable payments, and it apparently tries only to stop those for larger amounts. Only about 10 or 12 vouchers are refused or held up for correction every month. Many of those request additional information or point out errors of one sort or another, but payment for supplies or

equipment is rarely refused.

#### Allotment System

The allotment system applies only to the general fund.<sup>8</sup> There is nothing to prevent a department from making a purchase from special funds, if such are available, after a request for allotment from the general fund has been disapproved. This happens regularly, in the same way that purchases are made from special funds after a general fund appropriation has been refused by the legislature.

#### Pre-audit

Some purchases, notably those of school cafeterias and other school functions, are not subject to pre-audit by the auditor. The law concerning purchases over \$2500 clearly states that "no expenditures . . . shall be so divided or parceled as to defeat or evade the provisions of this section." Apparently no check is made, however, of questionable purchases under the \$2500 limitation (for example, a \$2495 automobile which was recently purchased without being let on contract) to determine if such division or evasion actually occurred, although there are many ways in which this can be done. In the case of motor vehicle purchases, for example, "accessories" may be billed and paid for separately.

#### Summary

There is much overlapping and duplication of checks and controls. An equipment purchase from the general fund, for example, is checked twice by the budget bureau, first for availability of funds, by means of the

---

<sup>8</sup>Special funds for the 1947-49 biennium totaled more than \$45,000,000. The general fund budget was around \$74,000,000.

allotment system, then for price when the requisition is processed. Final approval rests with the auditor, however, who checks only after the expenditure is made. In the case of equipment purchases from special funds, this is the only check. There is also confusion as to what controls exist. Although the budget bureau reports that it receives all requisitions except those for list items and a few specialized purchases, such as drugs and books, several large departments report that they route only equipment requisitions through that office.

The principal difficulty in all the controls is that they are done in a piecemeal fashion with a great deal of duplication and overlapping, and are exercised, for the most part, after the purchase has been made and the commodity put into use. Comprehensive and positive control could be exercised only if pre-audit and the encumbrance of funds takes place before the purchase is made.

#### Purchasing on Islands Other Than Oahu

A particularly difficult phase of purchasing is the problem of purchasing on the islands other than Oahu. The problem is faced by all departments with branch offices on the other islands and several different solutions have been worked out. For example, some departments allow each branch office to handle its own purchasing, in which case most buying is from local vendors. In some cases the branches are encouraged to buy standard items from departmental stocks but permitted to purchase from local vendors if the price is "reasonable." At least one department has worked out a system by which many commodities on the outside islands are bought at Honolulu prices, but with the transaction actually being handled and delivery made by the local vendor.

Some examples of comparative prices have been picked at random from recent vouchers and are shown below:

<u>Item</u>	<u>Price Quoted By Supplies Division</u>	<u>Price Paid On Other Islands</u>
Paper, mimeograph, 8½x13	2.09 rm.	2.45 rm.
Ribbons, typewriter, same brand	.70 ea.	1.12 ea.
Towels, paper, same brand and weight	6.10 cs.	7.20 cs.
Tires, 600x16 - 4 ply	8.62 ea.	13.70 ea.
Tubes, 600x16	1.45 ea.	2.57 ea.

While one branch office was paying \$2.45 a ream for mimeograph paper, other branch offices were buying paper of the same size and weight through their central office for 85¢--almost one-third the amount--including shipping charges. The variation is also high in tires, where the outer island price is more than 50 per cent higher, and in tubes, which are 75 per cent higher. These are only a few examples, but should serve to point out the problem as one to which consideration should be given.

### III. RECOMMENDATIONS

The waste and inefficiencies of territorial purchasing practices can be eliminated only by positive action on an overall scale to establish a modern, efficient system. This has apparently long been the intent of the legislature and the governor, but has not been accomplished because of several reasons.

It is recommended that such a system be effectuated by the establishment of a central purchasing division for the territorial government, with the following functions and responsibilities:

1. The purchase of all supplies and equipment for all territorial departments, boards, commissions or other agencies, with the reservation that the purchasing agent be given the authority to exempt from central control such classes of commodities as do not lend themselves to centralization. Commonly exempted items include petty cash purchases, fresh food products and emergency purchases. In the case of the territory, certain purchases for use on the other islands might also be exempted.
2. The standardization of purchases and the development and enforcement of specifications.
3. The testing and inspection of purchases and deliveries. The responsibility for the inspection of certain deliveries might be delegated to operating departments, if more practicable.
4. The storage of such items as can profitably be handled this way.
5. The disposal or transfer of obsolete or unused property and equipment.
6. The development of a reporting system to determine departmental stocks, needs, obsolete or unused equipment, etc.

Purchasing procedure similar in principle to that shown in Figure II is recommended. Such a system would route all purchasing through a central office and insure comprehensive and effective controls on purchasing. The procedure necessarily has more steps than does the present procedure, but the seeming simplicity of present processes has been achieved only at considerable expense and by sacrificing necessary controls. In the recommended procedure, pre-audit

would take place and funds encumbered before the purchase order is placed.

It is recommended that legislation similar to that outlined in Appendix B be enacted in order to establish such a system. Present legislation is not characterized by a direct and comprehensive approach, undoubtedly one of the major reasons that an adequate system has not been established. A recent opinion of the attorney general, for example, states that, under present law, a department may specify the make of machinery that is to be purchased, indicating a lack of authority in any central body. This system would also correct a weakness in the governor's original executive order which provided that purchase orders were to be issued by the departments instead of by a central agency which contributed to the growth of a decentralized system.

Best results can be secured if the central purchasing office is a division of a finance department along with budgeting, pre-auditing, treasury and central services. It is of the utmost importance that appropriations and staff for the purchasing division be adequate. In order that the division can buy standard items in large quantities and store until needed, it is recommended that a storeroom revolving fund be established.

Such a system would mean that purchasing could become an effective administrative tool for the control over biennial legislative appropriations of some \$10,000,000 to \$12,000,000. It would also effectuate substantial savings, both in purchases made and in the procedure for making them.

FIGURE II

## RECOMMENDED PURCHASING PROCEDURE

Using Department	Purchasing Division	Pre-Audit Division	Vendor
<p>(1) Prepares requisition and sends to Purchasing Division.</p>	<p>(2) Receives requisition. Routes to stockroom for immediate delivery if carried in stock. Maintains stockroom account records. If not for an item carried in stock, solicits bids in suitable manner, awards contract and prepares purchase order. Sends two copies to pre-audit.</p>	<p>(3) Receives purchase order. Determines availability of funds and encumbers account. Returns one copy of purchase order to Purchasing Division with approval or disapproval.</p>	
	<p>(4) Receives copy of purchase order from pre-audit. If approved, signs original and forwards to vendor. Sends copy to Using Department. Regularly gathers departmental estimates of anticipated needs of certain standard items and orders from vendors.</p>		<p>(5) Receives purchase order from Purchasing Division. Delivers commodity and invoice to specified place.</p>
<p>(6) Inspects delivery and checks invoice against purchase order if delivery made to department. If approved, forwards invoice and purchase order to Purchasing Division.</p>	<p>(7) Inspects delivery and checks invoice against purchase order if delivery made to Purchasing Division. Prepares voucher from invoice after own inspection approval or from purchase order and invoice received from department.</p>	<p>(8) Closes out encumbrance account. Certifies to treasurer for payment, or draws warrant on treasurer.</p>	<p>(9) Receives warrant from treasurer or pre-audit.</p>

APPENDIX A

Item	Current Prices Paid		State of Minnesota
	Territory	City and County	
Carbon, typewriter, 8 $\frac{1}{2}$ x11	\$ 2.75 - 4.50 bx.	\$ 2.57 (RVM brand)	\$ .87
" " , 8 $\frac{1}{2}$ x13	2.75 - 4.63 (4.05 - RVM brand)	2.57 (RVM brand)	.87
Clips, paper, #1	.62 - .70 ctn.	.58	.45
" " , #3	.62 - .70	.53	.45
Cups, paper, 4 oz.	2.34 - 2.85 M		
" " 5 oz.	6.15 - 8.85	5.50	
Envelopes, #6 3/4 - 24	3.92 - 4.24 M	2.75	1.67
" #10 - 24	6.18		2.87
Envelopes, clasp, 63N (6 $\frac{1}{2}$ x9 $\frac{1}{2}$ )	13.40 M		
90N (9x12)	18.90 - 19.00		12.05
93N (9 $\frac{1}{2}$ x12 $\frac{1}{2}$ )	20.35 - 21.23	21.50	11.41
97N (10x13)	21.60	22.50	13.80
Ink, mimeograph	1.25 - 2.48 $\frac{1}{2}$ (2.25 Niagara 126a)	1.75 (Niagara 126a)	.97
Paper, adding machine, 2 5/16"	1.50 doz.		
" " " 3 1/2"	3.05		1.80
Paper, mimeograph, white, 8 $\frac{1}{2}$ x11, 16#	.75 - 1.36 rm.	.93	.56
" " " 8 $\frac{1}{2}$ x13, 16#	.85 - 1.58 (average - 1.39)	1.09	.98
Ribbons, typewriter	.65 - 1.25 ea. (.75 - RVM)	.56 (RVM)	.36
Staples, Bates "B"	.60 - .695 spool	.695	.63
Stencils, 8 $\frac{1}{2}$ x13	2.40 - 3.29 qr.	2.62 - 3.03	1.95
Tacks, thumb, #3	1.50 - 1.80 M		1.54
Tape, scotch, 1/2 x 1296	.68 - .75 rl.	.68	.54
1/2 x 2592	1.16 - 1.28	1.16	.93
3/4 x 1296	.81 - 1.00	.81	.67
3/4 x 2592	1.44 - 1.65	1.44	1.30
Tires, 600 x 16, 4 ply	8.62 - 10.95 ea.	8.86	
670 x 15, 4 ply	9.88	10.50	
650 x 16, 6 ply	17.53	12.24	
750 x 20, 10 ply	32.42	32.31	

NOTE: Although the first reaction might be that the territory could never hope to meet prices paid by a large mainland state, it is interesting to note that in several items, such as 8 $\frac{1}{2}$ x13 mimeograph paper, thumb tacks and staples, the territory has obtained prices which compare favorably with those paid by Minnesota, thereby indicating what could possibly be accomplished by the territory under an efficient system

## APPENDIX B

### RECOMMENDED PURCHASING LAW

SEC. \_\_\_\_\_. Definitions. When used in this chapter, unless the context clearly indicates otherwise, the term "territorial agency" or "agency" shall include any officer, department, board, council, commission, institution or other division of the executive department of the territorial government. The term "purchasing agent" shall mean the territorial purchasing agent.

SEC. \_\_\_\_\_. Purchasing agent, appointment. A territorial purchasing agent shall be appointed by the director of finance and shall be selected from a list of eligible persons provided by the civil service commission. His classification and his salary shall be determined in accordance with the provisions of chapters 2 and 3. He shall devote his entire time to the duties of his office. He shall appoint such qualified personnel, subject to the provisions of chapters 2 and 3, as may be necessary to execute efficiently the responsibilities of his office.

SEC. \_\_\_\_\_. Powers and duties of purchasing agent. The purchasing agent shall have the power and authority, and it shall be his duty, subject to the provisions of this article:

a. To canvass all sources of supply and to contract for the purchase of all supplies, materials and equipment required by all agencies of the territorial government, under competitive bidding in the manner hereinafter provided. Supplies, material, equipment shall be interpreted to include all printing, binding and legal notices, repairs, rentals, insurance, fidelity bonds and all utility services such as

telephone, telegraph, postal, electricity and water.

b. To adopt and enforce standard specifications wherever possible for the purchase or use of supplies, materials and equipment for all territorial agencies. In the development of such specifications, the purchasing agent shall determine the exact needs of all agencies and seek to adopt standard specifications acceptable to the majority of such agencies. All specifications must be definite, certain and permit competition. Each standard specification shall, until revised or rescinded, apply in like terms and effect to each future purchase and contract for such commodity.

c. To rent or lease all grounds, buildings, offices or other space required by all territorial agencies.

d. To have supervision over all central storerooms of the territory.

e. To maintain complete inventories of all property, supplies, materials, and equipment of all territorial agencies.

f. To transfer any surplus unused or discarded supplies, equipment or materials to or between any territorial agencies.

g. To dispose of any surplus, unused, discarded or obsolete supplies, equipment or materials in the manner most advantageous to the territorial government; provided, that all moneys received from the sale of any such property shall be credited to the general revenues of the territory.

h. To perform any or all services or functions herein set forth for any legislative or judicial agency or body upon its request.

i. To enter into cooperative agreements, after approval by the finance director, with the City and County of Honolulu, or any other public body, relating to any of the functions or duties performed by the

purchasing agent, whenever, in his opinion, benefit shall accrue to either the territory or the other public body and no loss shall accrue to the territory thereby.

SEC. \_\_\_\_\_. Rules and regulations. The purchasing agent shall adopt and promulgate and may, from time to time, amend or rescind rules and regulations for the following purposes:

(1) To authorize, in writing, the purchase of specified supplies, materials, equipment or contractual services, under prescribed conditions and procedures by individual agencies, whenever in the opinion of purchasing agent, such articles or services may be more advantageously purchased by the agencies;

(2) To prescribe the manner in which all supplies, materials and equipment shall be delivered, stored and distributed;

(3) To prescribe the manner of inspecting deliveries of supplies, materials or equipment and making chemical and/or physical tests of samples submitted with bids and samples of deliveries to determine this compliance with specifications;

(4) To prescribe the manner and form in which requisitions and estimates are submitted and the manner of their authentication;

(5) To require and prescribe the form of regular reports by all agencies of stocks of supplies, materials and equipment, including unused, surplus or discarded articles;

(6) To provide for the transfer to or between all agencies of any supplies, materials or equipment which is surplus, unused or discarded by one agency;

(7) To determine whether a deposit or bond is to be submitted

with a bid or contract, and, if required, to prescribe the amount and form of such deposit or bond;

(8) To prescribe for the procedure and form for securing from bidders and prospective bidders the data necessary to determine whether or not they are responsible;

(9) To prescribe the manner in which purchases shall be made by the various agencies under the circumstances covered by Section \_\_\_\_\_ (emergency purchases);

(10) To provide for all other matters which may be necessary to effect the provisions and the rules and regulations of this chapter.

SEC. \_\_\_\_\_. Competitive bids. All purchases of, or contracts for, supplies, materials, equipment or contractual services shall be based on competitive bids whenever possible. The purchasing agent shall solicit sealed bids by sending notice to prospective suppliers and by posting notice on a public bulletin board in his office. He may solicit bids in any other reasonable manner designed to secure wide competition on each purchase, taking into consideration the amount of the purchase and the particular market conditions. Whenever possible, all purchases shall be based on at least three competitive bids. The purchasing agent may solicit bids from suppliers outside the territory. All bids shall be opened by the purchasing agent, or his authorized representative, at the time and place specified in the call for bids.

SEC. \_\_\_\_\_. Award of contracts. All purchases and contracts shall be awarded to the lowest responsible bidder, taking into consideration the qualities of the articles to be supplied, their conformity with the specifications, their suitability to the requirements

of the territory, any discounts allowed, transportation costs, and the delivery terms. If any such bidder shall refuse to accept, within ten days, a contract awarded to him, such contract may be awarded to the next lowest responsible qualified bidder, and so on until such contract shall be awarded and accepted. When, in the opinion of the purchasing agent, the best interest of the territory shall be served thereby, he may order that any or all bids may be rejected. If all bids shall be so rejected, the purchasing agent shall advertise again for proposals and such proposals shall be opened, awarded and approved in like manner as herein provided. If all bids received on a pending order or contract shall be for the same unit price or total amount, the purchasing agent shall have authority to award the contract to one of the time bidders by drawing lots in public, or to order the rejection of all bids and to order the purchase of the required supplies, materials, equipment or contractual services in the open market, provided the price paid in the open market shall not exceed the bid price. Each bid, with the name of the bidder, shall be entered on a record, and each record, with the successful bid indicated thereon, shall, after the award of the order or contract, be open to public inspection. All contracts shall be approved as to form by the attorney general.

SEC. \_\_\_\_\_. Unlawful purchases. When any agency shall purchase or contract for any supplies, materials, equipment or contractual services contrary to the provisions of this chapter, or the rules and regulations promulgated in pursuance thereof, such order or contract shall be void and of no effect. The administrative head of any such agency shall be personally liable for the costs of such order or

contract, and, if already paid for out of territorial funds, the amount thereof may be recovered from any such administrative head by the territory in a civil action.

SEC. \_\_\_\_\_. Preference to home products. The purchasing agent shall give preference to contracts with and purchases from citizens of the territory, and to such products and supplies as are produced within the territory. In giving such preference, no sacrifice or loss in quality shall be permitted. Whenever it shall be established that any purchase cannot be made within the territory, or that the lowest bid received for such supplies, materials, equipment or contractual service from citizens or firms which maintain regularly established places of business in the territory exceeds by more than five per cent a bid received from a firm or individual outside the territory, then such purchases may be made outside the territory.

SEC. \_\_\_\_\_. Financing. Money shall be appropriated to the agencies based on estimates of their purchasing needs. However, the spending of such funds shall be effected by the purchasing agent, based on estimates agreed on jointly by the purchasing agent and the individual agency.

Except in emergencies, no order for delivery on a contract or open market purchase shall be issued until the shall have certified that the unencumbered balance, in excess of all unpaid obligations, is sufficient to defray the amount of such order.

SEC. \_\_\_\_\_. Certain emergency purchases. The purchasing agent may purchase or may authorize any agency to purchase in the open market,

without filing requisition or estimate, specific supplies, materials or equipment for immediate delivery to meet emergencies arising from unforeseen causes, including delays by contractors, delays in transportation and an unanticipated volume of work. A written account of the circumstances of such purchase and the competitive bids secured shall be submitted to the finance director and be available to the public at any reasonable time.

SEC. \_\_\_\_\_. Advisory board on standardization. There is hereby created an advisory board on standardization referred to hereinafter as "board" to be composed, ex-officio, of the heads of the following agencies, or such representatives as they shall appoint:

The purchasing agent shall serve as chairman of such board, and the board shall adopt rules and regulations for its functioning. The board shall advise the purchasing agent in the adoption, amendment or modification of standard specifications. The board shall seek the cooperation and assistance of all agencies concerned in formulating its recommendations. Standard specifications adopted by the purchasing agent shall, insofar as possible, follow the majority recommendation of the board.

SEC. \_\_\_\_\_. Conflicting acts repealed. All acts and parts of acts, and all administrative rules and regulations inconsistent with the provisions of this act are hereby repealed.

SEC. \_\_\_\_\_. This Act shall take effect July 1, 1951.

## APPENDIX C

### PURCHASING FOR THE CITY & COUNTY OF HONOLULU

#### Introduction

The bureau of purchases and supplies, established May 1, 1938, is responsible for the purchase of "all materials for the city and county." The purchasing agent is appointed by the controller and is responsible to him. His present staff consists of three buyers and two clerical workers. All purchases, such as supplies, equipment, furniture and printing, are handled through this office. Its purchases include such highly specialized and technical items as drug supplies and chemicals. Mr. Smythe, purchasing agent since the office was established, estimates that the office wrote about 35,000 purchase orders last year, handled expenditures totaling \$3,228,250. The 1950 budget for the bureau is \$25,673.

#### Purchasing Procedure

The various departments requisition from the bureau of purchases and supplies any item they wish to obtain. The requisitions contain detailed specifications of the item and may include the brand name desired.

Upon receipt of a requisition the purchasing office invites at least three vendors to bid on the item. If the item requisitioned involves an expenditure greater than \$2500, a formal procedure must be followed and written bids submitted. For an item costing less than \$2500 the purchasing agent may request informal bids, many of which are obtained by telephone. The purchasing agent analyzes the bids received and contacts the department concerned if the item requisitioned is not available exactly as requested. In other cases he fills in the price of the "lowest responsible bidder" on the requisition and forwards it with two copies of the purchase order to the controller. The controller pre-audits the purchase for

availability of funds and encumbers the account. A copy of the purchase order is returned to the purchasing agent with the controller's approval or disapproval. The original purchase order is signed and forwarded to the vendor only upon receipt of such approval. After the department receives the material, it issues a voucher which is checked by the purchasing bureau for conformity with the original order. If a discrepancy is discovered, the voucher is returned to the department. If it conforms exactly with the original purchase, it is routed to the controller, who authorizes payment, providing other aspects of the transaction are satisfactory, and then to the auditor, who makes the payment.

#### Standardization and Specifications

The purchasing agent reports that the problem of "brand name" buying has decreased steadily since the establishment of a central system of purchasing. The present policy is to encourage buying by specifications rather than name or make, but to make exceptions if necessary to meet particular needs. If a department specifies on a requisition that only a certain brand or make is desired, the purchasing bureau proceeds to call for bids in the ordinary manner, using the specifications furnished by the department. If a product of a different brand than that requested submits the low bid, the department is informed of the bid received for each brand and requested to specify which product it wishes purchased. If the department specifies other than the low bid, it is asked to give its reasons for desiring that particular make. The department head must approve the request. If the purchasing agent feels that the request is reasonable, the brand specified will probably be purchased. In most cases, the department is willing to try a different brand if it can be demonstrated that it is of the same quality, yet more economical, and most are satisfied after trying it. The question of brands is always somewhat of a problem, however, particularly during the first years of a new system.

## Storage

In general, each department maintains its own storage facilities. Purchases made by the purchasing bureau are delivered directly to the department concerned. Many office supplies, however, are bought in quantity and stocked in a central storeroom located in the basement of City Hall. Paper, pencils, envelopes, paper clips, folders, memo pads, tablets, and various other standard items are purchased in volume by the purchasing bureau and stored in the storeroom. An item carried in the storeroom is issued to the department at its wholesale price plus 10 per cent to cover operating expenses and any possible spoilage. If it is found at any time that there is no financial advantage in stocking an item and charging an extra 10 per cent, bulk purchase of that commodity is discontinued and it is purchased directly upon requisition. The issuance and payment are handled by bookkeeping transactions and it is not necessary for the receiving department to prepare a voucher and warrant to pay for the supplies. The storeroom operates by means of a revolving fund and is self-supporting because of the 10 per cent charge. It is handled on a part-time basis by an employee of the controller's office.

An interesting variation of this procedure concerns the purchase of carbon paper and typewriter ribbons. Instead of purchasing the items themselves, the bureau purchases and receives coupons which may be exchanged for the ribbons and carbon paper. The coupons are kept in the storeroom and traded in at the vendor upon requisition by a department. This procedure has three advantages:

1. The City & County gets the benefit of lower prices resulting from volume buying.
2. Stock is always fresh.
3. Vendors provide storage facilities free-of-charge for City & County goods.

### Disposal of City - County property

A formal process is necessary for the disposal of all "non-expendable" city-county property. Mr. Smythe is of the opinion that there is no formal definition or legal opinion as to just what constitutes "non-expendable" property although anything listed on a department's inventory is considered "non-expendable." He says that, in practice, most office supplies, such as staplers or inexpensive fountain pens, are considered "expendable."

To dispose of all furniture, equipment, property and other non-expendable property, the department head concerned makes application, by letter, to the Board of Supervisors, stating his reasons for wishing to dispose of the property. If the board approves the application, and if the value of the item involved is less than \$1000, it adopts a resolution authorizing disposal, usually vesting authority in the purchasing agent to dispose of it as he sees fit "to the best advantage of the City and County." If of substantial value, a different procedure, including legal publication, is followed before the purchasing agent is given such authorization.

The purchasing agent takes into consideration the value of the property involved in the disposal methods he utilizes. If its value is small, he tries to dispose of it by obtaining bids by telephone. If its value warrants publication expense, newspaper space may be purchased. Items such as automobiles may be disposed of by auction or traded in on new models, according to which method is most advantageous to the municipality. All money realized from the sale of property is credited to the general fund,