

February 4, 1998  
ILR 98-A

Senator Alarik Myrin  
Utah State Senate  
319 State Capitol Building  
Salt Lake City, UT 84114

**Subject: Division of Wildlife Resources Purchases of Fencing**

Dear Senator Myrin:

As you requested, our office has reviewed the contracts maintained by the state Division of Purchasing & General Services (State Purchasing) used to purchase fencing materials for the management of livestock and wildlife on state trust lands. Overall, we concluded that the fencing contract is beneficial to the state. The two purchases in question illustrate that fencing contracts could facilitate a savings to the state despite the uncertain circumstances surrounding the purchases. One purchase, made through the Department of Natural Resources' Division of Wildlife Resources (DWR) showed that the state would have saved \$250 had there not been a miscommunication which resulted in DWR not using the contract vendor. State Purchasing authorized the non-contract purchase as a goodwill gesture since the fencing order had already been finalized from the non-contract vendor. The second purchase, made through the School & Institutional Trust Lands Administration (SITLA), appears to have saved the state an estimated \$100 over a vendor allegedly having a lower cost for the materials. This report provides further detail on the two fencing incidents and documents that state contracts, despite the concerns surrounding these purchases, can be beneficial.

**Miscommunication Increased Cost of DWR Fencing Project**

The first incident concerns a fencing material purchase made by DWR for its Mallard Springs project in June of 1996. The project cost slightly more than it could have because of miscommunication during its purchasing phase. In that phase, the DWR obtained fencing material from a non-contract vendor, at a price—which at the time—erroneously appeared cheaper than the state contract price. Therefore, the project was \$250 more expensive from the non-contract vendor than from the state fencing contract.

In this incident, a DWR employee was asked to oversee the project and prepared telephone bids from three vendors. The state contract vendor was one of the vendors contacted. In this bid process, the state contractor was out-bid because of a miscommunication in pricing between one of their employees and the state employee; neither of which knew about the reduced prices listed on a contract with the state. The mistake went uncorrected because the DWR employee did not independently verify existing contract prices and prematurely awarded the bid to another vendor. However, when he later discussed the purchase with a supervisor for final authorization, he was told that he could not use that particular vendor because any purchase over \$2,000 has to be made through State Purchasing. Had this review occurred, the employee would have most likely seen the savings connected with the fencing contract compared to the telephone quotes he obtained. Instead, the employee stated that although he had been trained in purchasing procedures, he had failed to review these procedures. So, in the end, State Purchasing authorized the DWR purchase from the non-contract vendor as a goodwill gesture because the order had already been promised to the non-contract vendor, who had already ordered in the materials from its corporate warehouse.

Further documentation between State Purchasing, the vendor employee who maintains the state contract, and the ordering employee's supervisor provided evidence to our office that this was indeed an isolated incident wherein the employee did not recall purchasing protocol. As mentioned, the employee should have turned the purchase completely over to State Purchasing because it was a purchase anticipated to exceed \$2,000. State Purchasing reports rarely seeing this type of error; most employees who make purchases are reasonably trained and perform purchases in the proper manner.

Concerning the erroneous price quotations by the state contract holder, that contractor believes that the vendor employee who quoted the prices was unfamiliar with the existing contract and merely quoted regular retail prices. Our office obtained historical contract prices to determine the true costs at the time of the purchase. Figure I contains an item-by-item comparison of state contract and non-contract prices for the DWR fence project.

<b>Figure I</b>					
<b>Fencing Incident One —</b>					
<b>DWR Fence Project: State Contract Prices</b>					
<b>vs Non-contract Vendor Prices</b>					
		<b>State Contract Vendor</b>		<b>Non-contract Vendor</b>	
<b>Item</b>	<b>Unit Quantity</b>	<b>Unit Price</b>	<b>Extended Price</b>	<b>Unit Price</b>	<b>Extended Price</b>
Fence stays (36")	1855	\$ .24	\$ 445.20	\$ .32	\$ 593.60
T-Posts (steel 6')	1465	2.47	3,618.55	2.47	3,618.55
Barbed wire (2-point)	55	33.33	1,833.15	34.95	1,922.25
Nails (40D)*	50	.39	19.50	.59	29.50
Staples (1 1/4")	50	.57	28.34	.59	29.50
<b>Totals</b>			<b>\$ 5,944.74</b>		<b>\$ 6,193.40</b>
<i>* This product was not on the contract so the bid quote was used in lieu of the contract.</i>					

The totals in this figure show that the state contract vendor could have provided materials for about \$250 less than the bid-winner, thus saving the state money. The state contract vendor had materials totaling \$5,944.74, while the non-contract (bid winning) vendor had materials totaling \$6,193.40, which is \$248.66 more than the state contractor. But, as mentioned, State Purchasing authorized the non-contract purchase, despite the greater expense, as a gesture of goodwill toward the non-contract vendor since the bid had already been awarded.

### **Fence Purchase for Trust Lands Showed Good Judgement**

In the second incident, the School & Institutional Trust Lands Administration used the state fencing contract to save an estimated \$100 on a fencing project, despite claims that materials could be obtained at a lower cost. We believe this purchase showed good judgement since the alleged claim was only verbal and could not be clearly substantiated.

In this incident, the cattlemen's association approached the School & Institutional Trust Lands Administration about placing a fence between adjoining properties of the two entities. For this project—the Red Creek fencing project in the summer of 1993—the cattlemen's association claimed that they could buy fencing materials from a local vendor for less than the SITLA could through the state contract, which was eventually used to purchase the materials.

Since no pricing records were kept of the bid claim, our office analyzed the information by taking the materials list which was available from the SITLA and plugging in the 1995-1996 prices taken from the same source documents used to create Figure I. This comparison is illustrated in Figure II.

<b>Figure II</b>					
<b>Fencing Incident Two —</b>					
<b>SITLA Fence Project: State Contract Prices</b>					
<b>vs Non-contract Vendor Prices</b>					
		State Contract Vendor*		Non-contract Vendor*	
Item	Unit Quantity	Unit Price	Extended Price	Unit Price	Extended Price
Fence stays (36")	800	\$ .24	\$ 192.00	\$ .32	\$ 256.00
Roll barbed wire (barbless)	2	32.00	64.00	32.00	64.00
Roll Barbed wire (2-point)	20	33.33	666.60	34.95	699.00
9-gauge fence tie wire	3	43.75	131.25	43.75	131.25
Metal "T" posts	400	2.47	988.00	2.47	988.00
<b>Totals</b>			<b>\$ 2,041.85</b>		<b>\$ 2,138.25</b>
<i>* Since 1993 data was not available from the non-contract vendor, we used available 1995-1996 data from the state contractor and the non-contract vendor to illustrate the probable difference in prices.</i>					

The totals in Figure II indicate that the state contract vendor could provide materials for about \$100 less than the area vendor. The state contract vendor had materials totaling \$2,041.85, while the area vendor had materials totaling \$2,138.25, which is \$96.40 more than the state contractor. This data shows that SITLA's use of state fencing contracts was not only appropriate, but beneficial to the state.

We hope this letter addresses your concerns. Because the two incidences did not suggest any significant concerns with purchasing within the Department of Natural Resources, we maintained a narrow scope on this audit and only conducted a limited review of overall purchasing practices in the Department of Natural Resources. Our review did not show any concerns which would warrant a full-scale audit of purchasing. State Purchasing stated that

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purchasing problems of this nature occur very rarely as most of the department's purchases are either sole source purchases or are processed through the state Division of Purchasing & General Services.

If there is any additional information you need or if you have any further questions, please feel free to contact our office.

Sincerely,

Wayne L. Welsh  
Auditor General

WLW:DRU/lm