

## II – 6 PURCHASING POLICIES AND PRACTICES

Date: July 29, 2002

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### **Recommended Actions:**

Receive the report on MGT Recommendation II – 6: The Board of Regents, working with institutional officials, should conduct a review of the purchasing policies and practices with the objective of reducing both the operational costs of purchasing activities and the prices paid for goods and services.

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### **Executive Summary:**

Since the Board received the organizational review, Phase I report in January 2002, the Board Office and institutional representatives worked with MGT representative Jerry Schaffer to develop a work plan to address this recommendation. At the same time, the Board Office and the Regent institutions continued collaborative efforts to revise the purchasing section of the Regent Policy Manual.

The work plan consisted of seven major activities:

1. Document policies, practices and administrative systems related to the purchasing function at each University.
2. Obtain assessment from users of purchasing function including things such as surveys, focus groups, and interviews.
3. Identify best practices elsewhere.
4. In coordination with work on Recommendation II-2, threshold approvals, assess appropriateness of current bid level requirements on commodities and capital outlay.
5. Explore costs and benefits associated with greater utilization of group purchasing consortia.
6. Determine opportunities for more efficient operation of central receiving function.
7. Make recommendations based on findings to update the Regent Policy Manual and Iowa Administrative Code.

The seven steps are basically complete. The Board approved the Regent Policy Manual changes for purchasing at its July 2002 meeting. These changes should aid in reducing operational costs of purchasing activities.

As noted in the original MGT presentation, the purchasing organizations at the Regent institutions have many innovative practices in place and are encouraged to continue these efforts. It is these innovative practices that enable the Regent institutions to reduce the operational costs of purchasing activities as well as the prices paid for goods and services.

Two recent cooperative initiatives are highlighted:

UPS Shared Pricing Agreement

While each of the Regent universities have had contracts with UPS that published discounted prices, a Regent-wide contract was recently signed that is based on the combined institutional volume resulting in even greater discounts. This contract, which includes all three universities, the Special Schools and the Board Office, provides significant discounts.

This contract will be used for both outbound and inbound shipping. For inbound shipping, if a Regent institution orders a product, the institution can provide the shipper number and receive the discounted Regent contract rate for shipping rather than the rate of the potentially higher vendor shipping rate.

SUI / UNI Mail Services Agreement

The University of Iowa (SUI) and the University of Northern Iowa (UNI) have recently entered into an agreement where SUI provides mailing services for UNI.

UNI's mail manager retired and the University of Northern Iowa was considering outsourcing the mail services. SUI has similar mailings and uses the same software as UNI. The two universities seized an opportunity. SUI will handle mailing service for UNI at a lower cost. UNI will realize savings in salaries, equipment, and postage.

The inter-institutional agreement will result in savings for UNI of more than \$100,000 per year. At the same time, SUI will be generating additional revenue which will be used to reduce overhead costs.

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**Strategic Plan:**

The Board exercises oversight of purchasing at the Regent institutions to meet its statutory responsibility and strategic planning objective (4.4.0.0) to provide effective stewardship of resources by strengthening public understanding and confidence in its governance authority.

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**Background:**

The Board provides oversight of purchasing activities at the Regent institutions in a variety of ways.

- The Board receives an annual governance report on Purchasing. The purpose of the report is to review institutional purchasing efforts and compliance with state purchasing statutes regarding Iowa-based businesses, targeted small businesses, and Iowa Prison Industries. This report also identifies cooperative and collaborative efforts among the Regent institutions and other agencies — a specific Board policy and strategy to provide effective stewardship.

- Institutional purchasing staff and Board Office staff meet quarterly to discuss purchasing-related activities, and also meet with state purchasing officials to discuss statewide and cooperative purchasing initiatives. These meetings have been ongoing for many years. Ideas are shared at these meetings to the benefit of all parties.
- The Regent Policy Manual requires Board/Board Office staff review and approval at certain thresholds.

The Board Office and Regent institutions have held several meetings to address the MGT recommendation, work plan, and Policy Manual changes. The result of these meetings was a significant update to the purchasing section of the Regent Policy Manual that was approved by the Board in July 2002.

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**Analysis:**

The following provides information on each of the steps in the work plan.

Document Policies	The Regent institutions' policies on purchasing are available on each institution's web site. These policies are intended to provide more in-depth information for a particular institution. Each corresponds with the <u>Regent Policy Manual</u> , <u>Iowa Code</u> , and <u>Iowa Administrative Code</u> .
Assessments	<p>The Regent universities survey customers and vendors periodically regarding purchasing activities. The university purchasing departments have ongoing discussions with customer departments.</p> <p>They also conduct focus groups such as: 1) Soliciting end user input as part of procurement systems redesign and implementation of new/improved purchasing processes; and 2) Identifying any concerns with existing Administrative Rules, specifically, unnecessary or restrictive rules, which may inhibit the ability to reduce both operational costs and actual procurement costs.</p> <p>Groups such as National Association of College and University Business Officers (NACUBO), National Association of Educational Buyers (NAEB), and other similar groups provide benchmarking surveys through nationwide assessments.</p>
Best Practices	The National Association of Educational Buyers publishes information on best practices that is reviewed by the Regent institutions. A summary of that information is attached (Exhibit A). The entire report can be viewed at the following website: <a href="http://www.naeb.org/Miscellaneous.htm">http://www.naeb.org/Miscellaneous.htm</a> .
Thresholds	The Board Office worked with the Regent institutions to review all purchasing thresholds. The approved purchasing threshold changes should aid in reducing operational costs of purchasing activities at the Regent institutions.
Group Purchasing Consortia	The Regent institutions already utilize cooperative purchasing, including group purchasing consortia, whenever feasible. This information is provided in the Annual Regent Governance Report on Purchasing (Exhibit B).

Central  
Receiving  
Function

Each of the Regent universities has considered establishing formal central receiving operations on campus. While there may be advantages to such a function, the universities believe that the costs associated with a central facility, additional personnel, vehicles, and a tracking system is significant.

The size and type of shipments are varied and would include such things as textbooks, extremely sensitive research machinery, hazardous materials and chemicals, refrigerated goods, and large equipment. If a central receiving function were developed, it would need to be operated as an enterprise system, and would necessitate recharging departments for the added receiving and delivery function.

The universities feel that little would be gained by adding extra central receiving and delivery steps. The additional costs, increased handling risk, and built-in delays associated with a formal central receiving operation cannot be justified at this time.

Implemented  
Policy Changes

The Board Office, working closely with the Regent institutions, proposed changes to the Regent Policy Manual, which the Board approved at its July 2002 meeting. Some of the key changes include:

- Adding a Professional Services section to comply with the Accountable Government Act;
- Increasing the competitive bid threshold from \$5,000 to \$10,000 for all Regent institutions;
- Increasing the limit required for the Special Schools to process purchases through ISU from \$2,500 to \$5,000; and
- Delegating more authority to the Regent institutions by increasing the threshold for purchases with a unit cost to greater than \$250,000 or a total purchase cost of \$500,000 before approval by the Board Office or the Board is required.

The Board Office will continue to work with the Regent institutions to make the appropriate modifications to the Iowa Administrative Code.

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## BEST PRACTICES

In 1996, the National Association of educational Buyers established a best practices survey in order to add a qualitative layer to previous quantitative benchmarking work. Best is defined as “most effective in providing customer service resulting in high customer satisfaction.” A customer satisfaction survey was distributed among customer departments at 42 universities and colleges.

Survey responses identified four public universities, four private universities and colleges and two community colleges as “Best in Class.” To determine what those purchasing departments actually did to create such high customer satisfaction, interviews with customers were conducted at those 10 institutions.

As a result of these interviews, eleven attributes were identified as most important to customers:

1. Responsiveness
2. Partnering (with customers)
3. P.O. Cycle Time
4. Accuracy
5. Professionalism
6. Identifying Qualified Suppliers
7. Commodity Knowledge
8. Negotiating Ability
9. On-Time Delivery
10. Actual vs. Expected Cost
11. Quality

Purchasing departments are successful because:

- They thoroughly understand the traditional ingredients of good customer relations;
- They execute extremely well; and
- They have staffed their department with bright, dedicated people.

It is clear that cultural issues are important. What works at one institution may not work at another. Purchasing processes must fit the institutional culture.

### The Model of Best Practices

- Accessibility
- Automation
- Decentralization
- Getting feedback
- Teams
- Training

#### Accessibility

- Forward phones to cross-train people or to help line people or use voice mail effectively and sparingly
- Get out of the office – arrange meeting at the customer’s location, make marketing calls, get feedback, advertise services, build rapport, and establish relationships.

#### Automation

- User friendly automated requisition entry systems
- Good order status and inquiry features customers can use themselves
- Catalog features enabling customers to know what was on contract

#### Decentralization

- Best practices include a high level of decentralization so purchasing can be directly involved in value-added work. In today’s environment, decentralized limits should be \$2,500 to \$5,000.
- Establish a variety of flexible by-pass processes such as automated purchase order, procurement card, stores, petty cash, blanket orders, annual agreements, prime vendor agreements with desktop delivery

#### Getting Feedback

- Verbal feedback obtained in face-to-face meeting
- Written feedback from surveys
- Regular customer satisfaction surveys are powerful. It says you care about customer’s opinions, the customer has a voice, and their opinions make a difference
- Positive resolution must accompany a complaint

#### Teams

- The whole department should function like a team
- Establish a high degree of cross-training
- Staff spends time building personal relationships with customers
- Staff visits customers often

#### Training

- Customer training with web-based procedures, regular participations in “in-service” programs administered by Human Resources, on-request training, and new faculty orientations
- Purchasing training includes customer serviced training for everyone, repeatedly, professional development training in purchasing and related skills, cross training for department staff in how to do each other’s jobs, and special customer service and telephone for receptionists.

**BACKGROUND:**

**REGENT  
PROCEDURAL  
GUIDE**

Encourages the Regent institutions to:

- Exchange price information, supplier lists, bidder histories, and standard specifications and to implement interinstitutional purchasing arrangements wherever practical and feasible so that maximum value can be obtained [§8.07A];
- Participate in interagency cooperative purchasing agreements to provide the lowest competitive price consistent with Regent quality and service requirements [§8.07B]; and
- Purchase from state central purchasing contracts [§8.07C].

**MGT OF  
AMERICA STUDY**

MGT of America, Inc. conducted a comprehensive study of the Regent institutions' purchasing in 1992 and made two significant purchasing recommendations:

- Greater interinstitutional coordination; and
- The use of joint purchasing contracts among or between the institutions.

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**ANALYSIS:**

**PURCHASING  
PROCEDURES**

The institutions strive to maintain the proper balance among joint agreements and other consortia opportunities (Iowa Prison Industries, Targeted Small Businesses, and Iowa Businesses) while serving the needs of the campus by providing the best value at the best price.

Procurement efforts continue to focus on utilizing and developing joint contracting opportunities. Regent and State contracts are used to the fullest extent.

**Cooperative  
Purchasing**

Institutional strategic plans contain focused missions, which have allowed purchasing personnel to develop expertise in areas specifically related to the unique institutional roles, such as medicine or agriculture.

Joint efforts and shared expertise among the Regent institutions and other governmental and educational entities improve purchasing efficiencies and effectiveness by reducing costs and delivering more value-added services such as efficient and effective vendor selection, order placement, delivery, verification of receipt, and payment.

**Comparative Purchases**

	<u>FY 2000</u>	<u>FY 2001</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Joint Regent Contracts	\$107,822,050	\$118,968,703	\$11,146,653	10.3%
E&I Cooperative	2,960,171	2,657,839	(302,332)	(10.2%)
State of Iowa Contracts	<u>6,874,989</u>	<u>8,865,382</u>	<u>1,990,393</u>	29.0%
Total	\$117,657,210	\$130,491,923	\$12,834,713	10.9%

The institutions cooperatively purchased nearly \$130.5 million in FY 2001, an increase of \$12.8 million (10.9%) over FY 2000.

**Joint Regent Contracts**

The universities continue to participate successfully in joint Regent contracts. Joint Regent contracts consolidate like commodities from the institutions into a single contract. This minimizes individual institutions' efforts while maximizing commodity volume to gain better prices which otherwise could not be achieved.

The institutions purchase a variety of products through numerous vendors using joint Regent purchasing contracts. The table on the following page lists all of the Joint Regent contracts effective during FY 2001.

**Comparative Purchases from  
Joint Regent Contracts**

<u>Institution</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>Dollar Change</u>	<u>Percent Change</u>
SUI	\$93,032,252	\$102,673,661	\$9,641,409	10.4%
ISU	12,292,768	12,491,051	198,283	1.6%
UNI	2,476,573	3,691,407	1,214,834	49.1%
ISD <sup>1</sup>	0	100,692	100,692	N/A
IBS <sup>1</sup>	<u>20,457</u>	<u>11,892</u>	<u>(8,565)</u>	(41.9)%
Total	\$107,822,050	\$118,968,703	\$11,146,653	10.3%

<sup>1</sup> Included in ISU unless otherwise noted.

Contracts with various vendors for medical supplies (\$27.5 million) and pharmaceutical drugs (\$54.8 million) account for 69.2% of SUI's total purchases.

**Purchases from Joint Regent Contracts  
Over the Last Five Years**

	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
SUI	\$71,364,593	\$85,338,824	\$88,976,713	\$93,032,252	\$102,673,661
ISU	10,299,039	10,528,175	10,637,327	12,292,768	12,491,051
UNI	2,568,745	1,873,315	2,620,832	2,476,573	3,691,407
ISD	0	0	0	0	100,692
IBS	<u>0</u>	<u>7,866</u>	<u>17,658</u>	<u>20,457</u>	<u>11,892</u>
Total	\$84,232,377	\$97,748,180	\$102,252,530	\$107,822,050	\$118,968,703

The institutions have steadily increased purchases from Joint Regent Contracts over the last five years.

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**EXHIBIT E– COOPERATIVE PURCHASING**  
**EXCERPT FROM 2001 ANNUAL PURCHASING REPORT**  
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**TABLE 11**  
**JOINT REGENT PURCHASING CONTRACTS**  
**FY 2001**

<b>Institution</b>	<b>Item</b>	<b>Current Vendors</b>	<b>Available to</b>	<b>Contract Manager</b>
SUI	Book Binding	Heckman Bindery	All Regent Institutions	Kathleen Kennedy
SUI	Computer Equipment	Dell Computer	All Regent Institutions	Jayne Keiser
SUI	Computer Equipment	Gateway	All Regent Institutions	Jayne Keiser
SUI	Computer Equipment	Micron	All Regent Institutions	Jayne Keiser
SUI	Envelopes	Various	All Regent Institutions	Kathleen Kennedy
SUI	Laboratory Casework	Fisher-Hamilton	All Regent Institutions	John Keller
SUI	Laboratory Supplies	Fisher Scientific	All Regent Institutions	John Keller
SUI	Medical Supplies	Various	All State Agencies	John Schiltz
SUI	Miscellaneous Paper Products	Various	All Regent Institutions	Kathleen Kennedy
SUI	Nutritional Formula	Various	All State Agencies	Jim Jetter
SUI	Office Supplies	Corporate Express	All State Agencies	Mark Long
SUI	Pharmaceutical Drugs	Various	All State Agencies	Don Hanson
SUI	Projection Lamps	Sitler Electric	All Regent Institutions	Mark Long
SUI	Procurement Card	Elan Financial Servies	All Regent Institutions	Mark Long
SUI	Video Tape	Data Media	All Regent Institutions	Mark Long
SUI	Grease Recycling	National By-Products	All Regent Institutions	Jim Jetter
ISU	Computers	Compaq	All Regent Institutions & State Agencies	Terry Lewis
ISU	Computers	Micron Computers	All Regent Institutions	Terry Lewis
ISU	Computers and Supplies	Compucom (formerly CIC Systems)	Regent Institutions & DOT	Terry Lewis
ISU	Electrical Supplies	Stitzell Electric	All Regent Institutions	Norm Hill & Jim Mott
ISU	Emissions Monitoring	Total Source Analysis	SUI, ISU, & UNI	Karen Server
ISU	Fluorescent Bulb Disposal	A-Tec Recycling	SUI, ISU, UNI, & State Agencies	Cory Harms
ISU	Hazardous Waste Disposal	Environmental Enterprises	SUI, ISU, & UNI	Cory Harms
ISU	Laboratory Supplies	Fisher Scientific	Regent Institutions & IBA	Al Brooks & Doug Getter
ISU	Moving Services	Allied Van Lines	All Regent Institutions	John Feller
ISU	Photo Supplies	Olson Graphics	All Regent Institutions	Terry Lewis
ISU	Power Plant Chemicals	Nalco Chemical Co.	SUI, ISU, & UNI	Dennis Romsey
ISU	Workstations/Scientific Equipment	Hewlett-Packard	All Regent Institutions	Terry Lewis
UNI	Copier/Fax Supplies	Various	All Regent Institutions	Roxanne Conrad

**Educational & Institutional (E&I) Cooperative**

Another avenue of cooperative purchasing available to the institutions is through the Educational & Institutional (E&I) Cooperative, a not-for-profit purchasing cooperative consisting of over 2,000 tax-exempt colleges, universities, preparatory schools, hospitals, medical research institutions, and hospital purchasing organizations in the United States.

Over 75 contracts provide members with products and services ranging from computer supplies to lab coats, at very competitive prices.

**Comparative Purchases from the E&I Purchasing Cooperative**

<u>Institution</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>Dollar Change</u>	<u>Percent Change</u>
SUI	\$1,469,411	\$1,415,036	(\$54,375)	(3.7%)
ISU	1,376,126	955,997	(420,129)	(30.5%)
UNI	<u>114,634</u>	<u>286,806</u>	<u>172,172</u>	150.2%
Total	\$2,960,171	\$2,657,839	(\$302,332)	(10.2%)

<sup>1</sup> ISD and IBS are included in ISU numbers.

ISU's purchases from the E&I Cooperative returned to more statistically normal levels and declined more than \$400,000, as budget constraints affected acquisitions.

UNI's 150.2% increase is due primarily to furniture purchases.

**Purchases from the E&I Purchasing Cooperative Over the Last Five Years**

<u>Institution</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
SUI	\$1,266,938	\$1,260,784	\$1,268,494	\$1,469,411	\$1,415,036
ISU <sup>1</sup>	1,353,347	988,422	899,434	1,376,126	955,997
UNI	<u>166,885</u>	<u>122,182</u>	<u>18,171</u>	<u>114,634</u>	<u>286,806</u>
Total	\$2,787,170	\$2,371,388	\$2,186,099	\$2,960,171	\$2,657,839

<sup>1</sup> ISD and IBS purchases are included in ISU numbers.

Cumulative purchases from the E&I Purchasing Cooperative have remained relatively stable over the last five years.

**State of Iowa  
Purchasing  
Contracts**

Current State of Iowa contracts and related information can be found on the Iowa Department of General Services web site.

The Regent institutions cooperatively work with the Department of General Services (DGS) and share contracts whenever possible. The institutions have standard language in their bid documents that allow the state to use the Regent contracts.

The Regent institutions and DGS staff regularly communicate through quarterly purchasing meetings and other correspondence.

**Comparative Purchases from  
State of Iowa Purchasing Contracts**

<u>Institution</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>Dollar Change</u>	<u>Percent Change</u>
SUI	\$3,948,258	\$5,270,202	\$1,321,944	33.5%
ISU	2,342,650	2,911,520	568,870	24.3%
UNI	539,992	596,891	56,899	10.5%
ISD	27,846	74,801	46,955	168.6%
IBSSS	<u>16,243</u>	<u>11,968</u>	<u>(4,275)</u>	(26.3%)
Total	\$6,874,989	\$8,865,382	\$1,990,393	29.0%

**Purchases from State of Iowa Purchasing Contracts  
Over the Last Five Years**

	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
SUI	\$2,715,886	\$4,626,326	\$2,662,380	\$3,948,258	\$5,270,202
ISU	2,270,717	2,144,906	1,937,440	2,342,650	2,911,520
UNI	331,448	575,070	693,453	539,992	596,891
ISD	0	0	0	27,846	74,801
IBSSS	<u>42,091</u>	<u>15,160</u>	<u>19,154</u>	<u>16,243</u>	<u>11,968</u>
Total	\$5,360,142	\$7,361,462	\$5,312,427	\$6,874,989	\$8,865,382

Cumulative purchases from State of Iowa Purchasing Contracts have generally increased over the last five years.

**Successes and  
Future Plans**

Joint agreement between the universities and Elan Financial Services resulted in a cumulative rebate of \$82,058.

SUI completed its seventh year as a member of the University Health System Consortium comprised of most of the major teaching hospitals in the United States.

ISU served as the lead institution or jointly handled the contract administration process for several new and existing Joint Regent Contracts for:

- Moving Services;
- Personal Computer Products;
- Scientific Equipment And Supplies;
- Water Treatment Chemicals And Service;
- Hazardous Waste Disposal;
- Fluorescent Lamp Recycling;
- Computer Supplies And Peripherals;
- Photo Supplies Contract;
- Continuous Emissions Monitoring Systems Program;
- Purchasing Card Program; and
- Fax Machines.

UNI increased its joint purchases by almost 50%.

ISD and IBSSS continued to take advantage of larger discounts through bulk purchases.

See the Regent Exhibit Book for detailed examples by institution.

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