

**MEMORANDUM**

**To:** Board of Regents  
**From:** Board Office  
**Subject:** Annual Governance Report on Purchasing  
**Date:** November 3, 2003

**Recommended Action:**

Receive the annual governance report on purchasing activity at the Regent institutions for FY 2003.

**Executive Summary:**

The Board of Regents purchasing policy affirms that the best interests of the state of Iowa and the Regent institutions are served through implementation of a fully competitive purchasing system. The Board establishes policies and maintains oversight of all procurement functions.

On an annual basis, the Regent institutions compile and report purchasing efforts and compliance with state purchasing statutes as included in this memorandum.

This will be the last year for a formal report to the Board. The Board Office will continue to collect and maintain data provided by the institutions on a yearly basis beginning with FY 2004.

**Purchasing  
Topics**

The report is organized by the following topics:

- Central Purchasing
- Cooperative Purchasing
- Iowa-Based Businesses
- Targeted Small Businesses
- Iowa Prison Industries
- Conflict of Interest Vendors

**FY 2003  
Purchases****Purchases Processed through Central Purchasing  
FY 2003**

University of Iowa	\$363,734,182
Iowa State University	211,216,271
University of Northern Iowa	80,335,020
Iowa School for the Deaf	3,274,868
Iowa Braille and Sight Saving School	<u>478,728</u>
<b>Total</b>	<b>\$659,039,069</b>

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**Strategic Plan:**

The Board's system of governance is intended to maintain confidence in the management of the Regent institutions while allowing the institutions relatively wide latitude in the administration of their internal affairs.

The review of purchasing activities is consistent with the Board's strategic plan to meet its priority of accountability by:

- Utilizing management systems that periodically measure achievements in each of the priorities and strategies identified in the Board's and institutions' strategic plans;
- Exercising exceptional stewardship of public resources and pursuing continuing quality improvement in programs and services by identifying and implementing best practices;
- Maximizing benefits to Iowans and other citizens by determining appropriate needs for institutional resources and obtaining and managing them effectively;
- Ensuring compliance with Board policies and legal mandates through responsible oversight of operations; and
- Serving as an active and enthusiastic advocate and communicator for the Regent institutions, their students, and the citizens they serve by maintaining positive relationships with elected officials, other education sectors, the media, and the public at large.

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**Background:**

**Requirements**

The Iowa Code authorizes the Board of Regents to contract for goods, services, and capital improvements [§18.3] and [Chapter 262] and requires the Board to give preference to Iowa-Based Businesses; Small Businesses; and Targeted Small Businesses [§15.102].

The Regent Policy Manual:

- Delegates authority to the institutional presidents and superintendents to approve agreements and contracts for all goods and services purchased by the institutions;
  - Includes extensive purchasing guidelines but also maintains approval for items such as capital improvements and related consulting contracts;
  - Authorizes the institutional presidents and superintendents to establish a central purchasing authority at each institution to ensure that goods and services are competitively selected;
  - Requires that each institution establish procedures to ensure that goods and services are competitively bid and describes bidding procedures;
  - Encourages the institutions to utilize Iowa Prison Industries, Iowa Products and Labor, and Targeted Small Businesses; and
  - Requires each institution to submit an annual report on purchasing, which reviews institutional purchasing efforts and compliance with state statutes and Board policies.
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**Purchasing Topics:**

(Pages 5 – 6)      **Central Purchasing**

The institutions purchased just over \$659.0 million through central purchasing during FY 2003, an increase of nearly \$32.7 million (5.2%) over the \$626.3 million spent during FY 2002.

While state appropriations again were significantly reduced during FY 2003, purchases processed through Central Purchasing increased over FY 2002 as a result of the value-added services that central purchasing offices provide.

The central purchasing departments at the institutions process purchases for educational and administrative units as well as for a variety of auxiliary enterprises including residence halls, parking systems, and the University of Iowa Hospitals and Clinics. They also handle purchases for the gifts, grants, and contracts awarded to the institutions. Gift, grant, and contract funding for FY 2003 were record highs for SUI, ISU, and IBSSS.

The role of procurement in higher education has changed dramatically. There has been an increased dependency on capable and innovative centralized purchasing operations primarily due to significant technological advancements.

(Pages 6 – 7)      **Cooperative Purchasing**

Cooperative purchasing efforts allow the Regent institutions to maximize resources while reducing costs. Purchasing agents meet quarterly with other state and Board Office personnel to share current marketplace trends, discuss issues, and coordinate efforts.

Cooperative Purchasing efforts include Joint Regent Contracts, State of Iowa Contracts, and shared pricing agreements. The institutions also purchase directly from individual suppliers/contracts through the Educational and Institutional Cooperative Purchasing Consortium (E&I).

During FY 2003, the institutions purchased nearly \$166.6 million through Joint Regent Contracts and State of Iowa Contracts, an increase of almost \$5.9 million (3.7%) over FY 2002. The increase is attributed to the savings associated with combined purchasing power.

<u>Contract Type</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>Inc./Dec.</u>
Joint Regent Contracts	\$152,062,825	\$159,462,270	\$7,399,445
State of Iowa Contracts	<u>8,613,390</u>	<u>7,100,024</u>	<u>(1,513,366)</u>
Total	\$160,676,215	\$166,562,294	\$5,886,079

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**Iowa-Based Businesses**

Regent institutional purchases from Iowa-based businesses for FY 2003:

- Totaled \$300.1 million, an overall increase of \$31.9 million (11.9%) over FY 2002; and
- Represented 45.5% of the total amount processed through central purchasing offices.

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**Targeted Small Businesses (TSBs)**

The institutions reported total institution-wide purchases just over \$8.1 million from TSBs during FY 2003, a \$78,689 (1.0%) decrease from FY 2002. Not all TSB purchases are made through central purchasing offices.

FY 2003 purchases from TSBs represent 2.5% of total institution-wide purchases after adjusting for items such as annual or multi-year contracts, publications, advertising, state contracts, and items not available from TSBs.

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**Iowa Prison Industries (IPI)**

During FY 2003, purchases from IPI totaled just over \$1.2 million. This represents a \$556,569 (30.9%) decrease from the \$1.8 million expended with IPI in FY 2002. This is primarily due to larger furniture purchases made for residence hall projects during FY 2002. Budget cuts also played an important role in discretionary spending.

<u>Institution</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>Inc./Dec.</u>	<u>Percentage</u>
SUI	\$86,110	\$853,903	\$767,793	891.6%
ISU	1,690,323	347,806	(1,342,517)	(79.4%)
UNI	20,652	40,085	19,433	94.1%
ISD	1,765	540	(1,225)	(69.4%)
IBSSS	<u>128</u>	<u>75</u>	<u>(53)</u>	(41.4%)
Total	\$1,798,978	\$1,242,409	(\$556,569)	(30.9%)

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**Conflict of Interest Vendors**

During FY 2003, the Board approved 14 new vendors. Eight vendors were removed from the list since they do not continue to pose conflicts. There were 121 approved vendors with potential conflicts of interest at June 30, 2003.

The institutions spent a total of \$661,651 with conflict of interest vendors during FY 2003, a \$258,932 (64.3%) increase over the \$402,719 made in FY 2002. Purchases fluctuate from year to year based on institutional needs for products and services.

**Regent Exhibit Book**

The Regent Exhibit Book contains the institutions' individual submissions, which elaborates on the following:

- FY 2003 accomplishments;
- FY 2004 plans; and
- Current Procedures

**Analysis:**

**Central  
Purchasing**

The role of procurement in higher education has changed dramatically. There has been an increased dependency on capable and innovative centralized purchasing operations primarily due to significant technological advancements.

Board policies affirm that the best interests of the State of Iowa and the Regent institutions are served through implementation of a fully competitive purchasing system fostered by the use of open specifications, competitive bids or quotations, and awards to the lowest responsible and responsive bidder.

Through institutional and collaborative efforts, purchasing personnel facilitate purchasing efficiencies and effectiveness to reduce costs and add value by:

- Combining purchasing power, maximizing resources, and by improving purchasing and payment methods;
- Delivering more services through contract negotiation, RFP development, bid coordination, cost avoidance, risk assessment, marketplace knowledge, numerous cooperative purchasing contracts and opportunities, and institutional coordination efforts;
- Analyzing campus needs and buying cycles to create cost-effective purchasing solutions;
- Developing and maintaining qualified supplier databases;
- Providing consistent and standardized policies and procedures;
- Gathering and disseminating statistical information from a central location;
- Ensuring efficient and effective vendor selection, order placement, delivery, verification of receipt, and payment; and
- Assuring compliance with state laws and Board policies.

**Purchases Processed through Central Purchasing  
FY 1999 – FY 2003**

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
SUI	\$277,445,215	\$303,483,715	\$337,315,791	\$355,547,158	\$363,734,182
ISU	100,552,872	117,271,183	166,644,568	195,712,107	211,216,271
UNI	36,960,856	36,684,698	54,361,639	71,226,395	80,335,020
ISD	2,636,630	3,041,610	3,738,954	3,211,730	3,274,868
IBSSS	<u>710,797</u>	<u>725,981</u>	<u>641,508</u>	<u>659,000</u>	<u>478,728</u>
Total	\$418,306,370	\$461,207,187	\$562,702,460	\$626,356,390	\$659,039,069

Purchases have gradually increased over the past five fiscal years as a result of the value-added services that central purchasing offices provide.

**Procurement  
Cards**

Procurement cards provide a more efficient and cost-effective procedure than written purchase orders (PO's) for purchasing low-value, small-dollar transactions and allow purchasing professionals to concentrate on high-dollar, more complex acquisitions. The institutions monitor the cards regularly and have security measures in place to ensure appropriate usage.

Over the past five years, thousands of written purchase orders have been eliminated as the number of procurement cards and purchases with them have increased. This has resulted in cost savings for the institutions, central purchasing staffs having more time to focus on value-added activities, and employees having immediate access to items. Procurement cards are accepted world wide and can be used 24 hours a day, 7 days a week, 365 days a year.

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Written Purchase Orders / Procurement Cards and Purchases

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Written PO's	66,167	61,447	52,240	43,381	40,644
Procurement Cards	1,513	1,680	2,088	2,827	3,523
Procurement Purchases	\$14,588,880	\$19,179,269	\$23,606,550	\$38,662,226	\$50,283,882

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**Cooperative  
Purchasing**

Cooperative purchasing efforts allow the Regent institutions to maximize resources while reducing costs. Purchasing agents meet quarterly with other state and Board Office personnel to share current marketplace trends, discuss issues, and coordinate efforts.

Purchasing agents participate in local, regional, and national meetings and actively monitor listserves and web sites of cooperative purchasing groups to remain knowledgeable regarding procurement opportunities. Agents also perform price analyses to determine whether utilizing contracts or consortium pricing agreements is in their best interest.

When soliciting bids, purchasing agents ask whether other Regent institutions or state agencies can use the pricing offered. Institutional cooperative guidelines require that each institution's purchasing management is notified of these agreements and include details of the offer. Agents then assess value to their respective institution, and, if used, notify the originating institution. This increases future joint Regent contracting opportunities and leverages joint purchasing power.

Cooperative Purchasing efforts include Joint Regent Contracts (JRC), State of Iowa Contracts, and shared pricing agreements. The institutions also purchase directly from individual suppliers/contracts through the Educational and Institutional Cooperative Purchasing Consortium (E&I).

The institutions strive to maintain the proper balance among cooperative purchasing and other guidelines (Iowa-Based Businesses, Targeted Small Businesses, and Iowa Prison Industries) while serving the needs of the campuses by providing the best value at the best price.

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 Contracts such as pharmaceutical drugs and medical supplies. The Regent Exhibit Book contains a listing of all such joint contracts effective during FY 2003.

**Joint Regent Contract Purchases  
FY 1999 – FY 2003**

<u>Institution</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
SUI	\$88,976,713	\$93,032,252	\$102,673,661	\$134,093,299	\$138,624,121
ISU	10,637,327	12,292,768	12,491,051	13,196,244	15,686,356
UNI	2,620,832	2,476,573	3,691,407	4,725,785	5,123,269
ISD	0	0	100,692	46,056	14,232
IBSSS	<u>17,658</u>	<u>20,457</u>	<u>11,892</u>	<u>1,441</u>	<u>14,292</u>
Total	\$102,252,530	\$107,822,050	\$118,968,703	\$152,062,825	\$159,462,270

During FY 2003, the institutions purchased nearly \$159.5 million through Joint Regent Contracts, an increase of nearly \$7.4 million (4.9%) over the \$152.1 million spent during FY 2002.

State of Iowa  
Contracts

The Regent institutions cooperatively work with the Iowa Department of General Services (IDGS) and share contracts whenever possible. The institutions have standard language in their contracts that allow the State of Iowa to use the Regent contracts and the Regents may access current State of Iowa contracts and related information on the IDGS web site.

Regent institutional staff and IDGS staff communicate regularly through quarterly purchasing meetings and through other correspondence.

**State of Iowa Contract Purchases  
FY 1999 – FY 2003**

<u>Institution</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
SUI	\$2,662,380	\$3,948,258	\$5,270,202	\$5,712,986	\$3,934,981
ISU	1,937,440	2,342,650	2,911,520	2,145,245	2,448,868
UNI	693,453	539,992	596,891	629,290	630,309
ISD*	0	27,846	74,801	105,295	55,508
IBSSS*	<u>19,154</u>	<u>16,243</u>	<u>11,968</u>	<u>20,574</u>	<u>30,358</u>
Total	\$5,312,427	\$6,874,989	\$8,865,382	\$8,613,390	\$7,100,024

\*Does not include goods purchased through ISU.

During FY 2003, the institutions purchased \$7.1 million through the State of Iowa Contracts, a decrease of \$1.5 million (17.6%) from the \$8.6 million spent during FY 2002.

**Iowa-Based Businesses**

The Board and the institutions are committed to purchases from Iowa-based businesses whenever possible.

Requirements

The Iowa Code requires state and local governing bodies to give preference to Iowa-based businesses, small businesses, and targeted small businesses when purchasing materials, products, supplies, provisions, and other articles purchased at public expense [Chapter 73].

Iowa-Based Businesses

**Purchases from Iowa-Based Businesses  
FY 2002 – FY 2003**

<u>Institution</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>Inc./Dec.</u>	<u>Percentage</u>
SUI	\$117,764,326	\$140,578,626	\$22,814,300	19.4%
ISU	108,611,603	116,292,534	7,680,931	7.1%
UNI	39,768,967	41,044,855	1,275,888	3.2%
ISD	1,701,868	1,888,951	187,083	11.0%
IBSSS	<u>434,238</u>	<u>328,751</u>	<u>(105,487)</u>	(24.3%)
Total	\$268,281,002	\$300,133,717	\$31,852,715	11.9%

The institutions collectively increased purchases from Iowa-based businesses by nearly \$31.9 million (11.9%) over FY 2002.

All Sources

**Purchases by Sources  
(in thousands)  
FY 1999 – FY 2003**

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Iowa Bus. Small	\$56,835	\$60,991	\$66,019	\$53,249	\$54,363
Iowa Bus. Not Small	<u>108,575</u>	<u>143,481</u>	<u>171,619</u>	<u>215,032</u>	<u>245,771</u>
Iowa Bus. Subtotal	\$165,410	\$204,472	\$237,638	\$268,281	\$300,134
Out of State	250,420	253,651	322,385	355,586	353,149
Out of Country	<u>2,476</u>	<u>3,084</u>	<u>2,679</u>	<u>2,489</u>	<u>5,756</u>
Total Purchases	\$418,306	\$461,207	\$562,702	\$626,356	\$659,039



**Targeted Small Businesses (TSBs)**

The institutions are encouraged to purchase from TSBs whenever possible.

Requirements

The Iowa Code:

- Defines a targeted small business as a business that is:
  - At least 51% owned, operated, and actively managed by one or more women, minorities, or persons with disabilities;
  - Located in Iowa;
  - Operated for profit; and
  - Has an annual gross income of less than \$3 million computed as an average of the three preceding fiscal years [§15.102].
- Requires that agencies have procurement goals of at least 10% of their goods and services from certified TSBs [§73.16].

Other Minority Purchases

The Regent institutions purchase products from TSBs that have not gone through the state's certification process. Targeted small businesses that do not become certified with the State of Iowa cannot be counted in the state's TSB purchasing totals.

The central purchasing departments at the institutions process purchases using a variety of funding including federal sources. Federal guidelines also have diversity initiatives and goals. The institutions make purchases from federally classified Minority Business Enterprises (MBE) and Women Business Enterprises (WBE) nationwide.

Expenditures

	<b>Purchases from TSBs FY 2002 – FY 2003</b>			
	<u>FY 2002</u>	<u>FY 2003</u>	<u>Inc./Dec.</u>	<u>Percentage</u>
SUI	\$5,936,926	\$6,221,606	\$284,680	4.8%
ISU	1,090,732	889,325	(201,407)	(18.5%)
UNI	1,141,690	977,173	(164,517)	(14.4%)
ISD	3,397	3,588	191	5.6%
IBSSS	<u>6,441</u>	<u>8,805</u>	<u>2,364</u>	36.7%
Total	\$8,179,186	\$8,100,497	(\$78,689)	(1.0%)

Not all TSB purchases are made through central purchasing offices. FY 2003 purchases from TSBs represent 2.5% of total institution-wide purchases after adjusting for items such as annual or multi-year contracts, publications, advertising, state contracts, and items not available from TSBs.

**Iowa Prison Industries (IPI)**

Iowa Prison Industries employs staff and inmates at each of the three Iowa Department of Corrections institutions (Anamosa, Fort Madison, and Mitchellville) to provide products and services.

The Iowa Code requires state agencies to purchase goods furnished by Iowa Prison Industries (IPI) unless those goods do not meet the performance characteristics of similar goods used by the agencies or unless IPI cannot deliver similar goods, comparable both in performance and price, within a reasonable length of time [§904.808].

The Regent Policy Manual encourages the institutions to purchase from Iowa Prison Industries unless exempted under special circumstances.

**Purchases from Iowa Prison Industries  
FY 1999 – FY 2003**

<u>Institution</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
SUI	\$21,813	\$282,304	\$50,549	\$86,110	\$853,903
ISU	892,674	2,011,388	2,548,714	1,690,323	347,806
UNI	5,711	7,367	61,465	20,652	40,085
ISD	35,815	2,826	28	1,765	540
IBSSS	<u>832</u>	<u>2,553</u>	<u>713</u>	<u>128</u>	<u>75</u>
Total	\$956,845	\$2,306,438	\$2,661,469	\$1,798,978	\$1,242,409

Demand fluctuates from year to year due to the cyclical nature of higher-cost product purchases, such as furniture, which are dependent on the individual construction projects on the Regent campuses.

FY 2003 purchases from IPI decreased \$556,569 (30.9%) from FY 2002. This is primarily due to larger furniture purchases made for residence hall projects during FY 2002. Budget cuts also played an important role in discretionary spending.

**Conflict of  
Interest Vendors**

Each Regent institution is responsible for identifying and analyzing conflict of interest vendor purchases at its institution.

The Iowa Code contains requirements that officials or employees of a regulatory agency must follow in order to sell goods or services to their respective agency as a conflict of interest vendor [§15A.2].

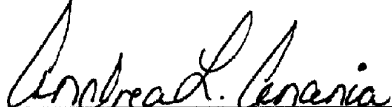
The Regent Policy Manual contains policies and procedures for approving and using conflict of interest vendors.

**FY 2003  
Activities**

The Board approved 14 new vendors with conflicts of interest during the year and the institutions removed eight vendors that do not continue to pose conflicts. There were 121 approved vendors with potential conflicts of interest at June 30, 2003.

The institutions spent a total of \$661,651 with conflict of interest vendors in FY 2003, a \$258,932 (64.3%) increase over the \$402,719 total purchases made in FY 2002. Purchases fluctuate from year to year based on institutional needs for products and services.

A complete list of approved vendors with expenditures is included in the Regent Exhibit Book.

  
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Andrea L. Anania

Approved:   
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Gregory S. Nichols