



**OFFICE OF AUDITOR OF STATE**  
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**NEWS RELEASE**

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FOR RELEASE \_\_\_\_\_ July 24, 2007

Auditor of State David A. Vaudt today released a report on the Strategic Sourcing Initiative implemented by the Department of Administrative Services (DAS). DAS implemented the Initiative with assistance from A.T. Kearney, a management consulting firm. The assistance was provided as a result of a multi-phased contract process. Strategic Sourcing is defined by A.T. Kearney as a “disciplined, systematic process for approaching the supply market” or a “defined process designed to reduce the total costs of externally purchased material, goods and services while maintaining or improving the level of quality, service and technology.”

The Initiative was undertaken with the intent of revising sourcing approaches in order to generate significant savings when purchasing goods and services and improving procurement processes and practices. To begin the Strategic Sourcing efforts, categories of purchases and their related addressable spend which was considered viable for improvements in pricing, processes and practices were identified. Targeted savings were also identified for each sourcing category.

DAS requested the Office of the Auditor of State review the sourcing categories under the Initiative to determine if the addressable spend and savings identified by A.T. Kearney could be validated. For those sourcing categories where savings could be validated, first year savings of \$2,869,703, an average of more than 6% of the \$46,738,708 of addressable spend, was validated. Based on revised contractual provisions, the validated savings represent potential savings the State could achieve on an annual basis as a result of the Initiative if certain assumptions are met. A.T. Kearney was paid approximately \$3.7 million for its services.

The addressable spend amounts included in the original contract between DAS and A.T. Kearney (ATK Contract), the final ATK Contract amendment, the close-out reports from A.T. Kearney and the validated amount for each sourcing category are summarized below.

<b>Sourcing Categories per Close-out Report</b>	<b>Original ATK Contract</b>	<b>ATK Contract Amendment</b>	<b>Reported by A.T. Kearney</b>	<b>Validated</b>
Building and Construction	\$ 44,941,074	5,038,738	9,439,443	4,327,825
Fleet	16,860,377	13,480,000	13,200,019	13,200,019
Food	28,284,059	7,200,000	1,342,792	1,342,792
Fuel Card	8,807,603	9,300,000	9,300,000	9,300,000
IT Contractors *	5,464,727	-	-	-
Maintenance Supplies	44,669,154	4,914,607	1,161,005	1,041,119
Office Equipment	9,780,274	1,590,300	1,369,430	1,369,430
Office Supplies	22,678,870	9,027,644	9,027,644	9,027,644
Print and Promotion *	19,795,990	-	-	-
Stationery/Printed Forms/Labels *	2,598,239	-	-	-
Natural Gas	-	12,180,872	8,041,961	7,129,879
Total	\$ 210,880,367	62,732,161	52,882,294	46,738,708

\* - Close-out report not issued for sourcing category.

After the final ATK Contract amendment, 3 sourcing categories had been removed and the amount of addressable spend for 7 of the remaining sourcing categories had been decreased. The addressable spend in the final ATK Contract amendment was 70.25% less than the original amount. The amount reported by A.T. Kearney in the close-out reports was also less than the amount identified in the final ATK Contract amendment. We were able to validate \$46,738,708 of the addressable spend reported.

The savings amounts included in the original ATK Contract, the final ATK Contract amendment, the close-out reports by A.T. Kearney and the validated amount for each sourcing category are summarized below.

<b>Sourcing Categories per Close-out Report</b>	<b>Original ATK Contract</b>	<b>ATK Contract Amendment</b>	<b>Reported by A.T. Kearney</b>	<b>Validated</b>
Building and Construction	\$ 1,348,232	251,937	947,799	485,071
Fleet	1,180,226	943,600	25,932	-
Food	848,522	216,000	81,005	81,005
Fuel Card	176,152	186,000	138,466	138,466
IT Contractors *	273,236	-	-	-
Maintenance Supplies	1,419,879	294,876	207,485	173,915
Office Equipment	978,027	159,030	276,519	276,519
Office Supplies	2,214,310	722,212	787,495	787,495
Print and Promotion *	1,738,415	-	-	-
Stationery/Printed Forms/Labels *	389,736	-	-	-
Natural Gas	-	631,044	920,413	927,232
Total	\$ 10,566,735	3,404,699	3,385,114	2,869,703

\* - Close-out report not issued for sourcing category.

After the final ATK Contract amendment, 3 sourcing categories had been removed and the amount of savings for 7 of the remaining sourcing categories had been decreased. The targeted savings amount in the final ATK Contract amendment was 67.8% less than the original amount. The validated actual savings of \$2,869,703 shown above is 84.3% of the targeted savings of \$3,404,699 included in the final ATK Contract amendment.

Actual savings, defined in the ATK Contract, is an estimated amount and does not represent realized savings. The estimated amount could potentially be achieved if certain assumptions are met. However, there is no assurance the estimated amount will be realized.

By May 1, 2007, A.T. Kearney had received total payments of \$3,697,832.98, consisting of \$2,931,832.98 of set fees and performance-based compensation of \$766,000. A partial payment for performance-based compensation of \$383,000 was made on January 9, 2007 based on preliminary reports received from the Office of Auditor of State validating actual savings for individual categories. At that time, the actual savings validated in the preliminary reports was greater than 50% but less than 80%.

The last preliminary report was issued by the Office of Auditor of State in early April, before the final amendment to the ATK Contract. At that time, it was apparent validated actual savings was less than the 80% required for payment of the remaining \$383,000 of performance-based compensation. DAS subsequently amended the ATK Contract which eliminated the Print and Promotion sourcing category and decreased the amount of targeted savings. As a result, the 80% threshold was also reduced. The reduction was enough to allow the validated actual savings to exceed the 80% threshold. The terms of the ATK Contract required an independent audit of the actual savings prior to payment of the remaining \$383,000 of performance-based compensation. However, the payment was issued to A.T. Kearney May 1, 2007, prior to issuance of the final independent audit report.

Vaudt reported there were several amendments to the ATK Contract. The first 2 amendments did not modify the targeted savings or cost of the contract. However, the third ATK Contract amendment reduced the targeted savings to an amount slightly less than the cost of the contract. The final ATK Contract amendment again reduced the targeted savings which caused the \$3,697,832.98 cost of the contract to exceed the amended targeted savings by approximately \$290,000.00.

The report includes items for consideration by DAS in the administration of the Strategic Sourcing Initiative.

A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/specials.htm>.

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**A REVIEW OF THE  
STRATEGIC SOURCING INITIATIVE  
ADMINISTERED BY THE  
DEPARTMENT OF ADMINISTRATIVE SERVICES**



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To Mollie Anderson, Director of the Department of Administrative Services:

We have performed certain agreed-upon procedures to satisfy the "Independent Audit" required by section 6.5.2 of the contract the Department of Administrative Services (DAS) entered into with A.T. Kearney in 2005 for Strategic Sourcing Services (ATK Contract). The procedures were designed to verify and validate the actual contracted annualized savings (actual savings) identified for Wave 1 of the Phase II Strategic Sourcing Initiative based on information provided to us. To achieve this objective, we performed the following:

- (1) Reviewed the "Introduction to Strategic Sourcing" presentation prepared by A.T. Kearney to gain an understanding of the strategic sourcing process.
- (2) Reviewed the ATK Contract and subsequent amendments to determine the sourcing categories and related addressable spend and target contracted annualized savings (targeted savings).
- (3) Interviewed individuals responsible for administering Strategic Sourcing to develop an understanding of the process used for each sourcing category, including data sources and methodologies used in developing addressable spend and savings calculations.
- (4) Reviewed the sourcing category close-out reports prepared by A.T. Kearney and related supporting documentation to determine the addressable spend and actual savings to be validated for each sourcing category.
- (5) Reviewed and evaluated the methodologies used by A.T. Kearney to analyze the addressable spend and savings calculations for reasonableness and consistency.
- (6) Tested relevant supporting documentation provided by DAS, A.T. Kearney and/or the category sourcing team members for addressable spend or procurement data to determine whether the amount presented could be validated.
- (7) Recalculated the addressable spend presented by A.T. Kearney in the sourcing category close-out reports by obtaining existing DAS contracts and contract prices.
- (8) Reviewed newly negotiated DAS contracts and contract prices for each sourcing category, including reasonableness of the Request for Proposal process, to be used in the calculation of actual savings.
- (9) Recalculated the actual savings reported by A.T. Kearney in the sourcing category close-out reports, using the addressable spend and existing and renegotiated contract prices to determine whether the amount presented could be validated.
- (10) Compared the validated actual savings with the targeted savings included in the final ATK Contract amendment to determine whether the targeted savings were achieved.

Based on these procedures, we were able to validate \$46,738,708 of the \$52,882,294 addressable spend and \$2,869,703 of the \$3,385,114 actual savings presented by



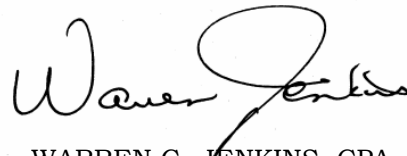
A.T. Kearney in the sourcing category close-out reports. Both the addressable spend and actual savings presented for validation by A.T. Kearney were less than the addressable spend and targeted savings included in the final ATK Contract amendment. In addition, the validated actual savings of \$2,869,703 is 84.3% of the targeted savings of \$3,404,699 included in the final ATK Contract amendment. Actual savings, defined in the ATK Contract, is an estimated amount and does not represent realized savings. The estimated amount could potentially be achieved if certain assumptions are met. However, there is no assurance the estimated amount will be realized.

The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of the Department of Administrative Services, other matters might have come to our attention that would have been reported to you.

We would like to acknowledge the assistance and many courtesies extended to us by the officials and personnel of the Department of Administrative Services and A.T. Kearney throughout the engagement.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

May 16, 2007

## Executive Summary

In 2005, representatives of the Department of Administrative Services (DAS) implemented a Strategic Sourcing Initiative with assistance from A.T. Kearney, a management consulting firm. Strategic Sourcing is defined as a “disciplined, systematic process for approaching the supply market” or a “defined process designed to reduce the total costs of externally purchased material, goods and services while maintaining or improving the level of quality, service and technology.”

The contract with A.T. Kearney (ATK Contract) required an independent audit and validation of actual contracted annualized savings (actual savings) identified as a result of the Strategic Sourcing Initiative. Actual savings was specifically defined in the contract between DAS and A.T. Kearney. Actual savings is an estimated amount and does not represent realized savings. The estimated amount could potentially be achieved if certain assumptions are met. However, there is no assurance the estimated amount will be realized. A component of the savings calculation is addressable spend or the population of purchases to which the savings is applied. The following paragraphs summarize the results of the procedures performed to validate the addressable spend and actual savings reported by A.T. Kearney.

**Addressable Spend** – The following **Table** summarizes the addressable spend amounts included in the original ATK Contract, the final ATK Contract amendment, the close-out reports from A.T. Kearney and the validated amount for each sourcing category. The addressable spend for each sourcing category is discussed further in the “Strategic Sourcing Categories” section of this report.

<b>Sourcing Categories per Close-out Report</b>	<b>Original ATK Contract</b>	<b>ATK Contract Amendment</b>	<b>Reported by A.T. Kearney</b>	<b>Validated</b>
Building and Construction <sup>^</sup>	\$ 44,941,074	5,038,738	9,439,443	4,327,825
Fleet	16,860,377	13,480,000	13,200,019	13,200,019
Food	28,284,059	7,200,000	1,342,792	1,342,792
Fuel Card	8,807,603	9,300,000	9,300,000	9,300,000
IT Contractors *	5,464,727	-	-	-
Maintenance Supplies**	44,669,154	4,914,607	1,161,005	1,041,119
Office Equipment	9,780,274	1,590,300	1,369,430	1,369,430
Office Supplies	22,678,870	9,027,644	9,027,644	9,027,644
Print and Promotion *	19,795,990	-	-	-
Stationery/Printed Forms/Labels *	2,598,239	-	-	-
Natural Gas	-	12,180,872	8,041,961	7,129,879
<b>Total</b>	<b>\$ 210,880,367</b>	<b>62,732,161</b>	<b>52,882,294</b>	<b>46,738,708</b>

<sup>^</sup> Comprised of the following sourcing subcategories: Roofing Design, Building Automation/Security/Fire and Safety (Building Automation), Master Architectural & Engineering (A&E), Woodward Resource Center (WRC) Wastewater Treatment Facility (WWTF) and Iowa Veteran’s Home (IVH) Dack Dayroom Expansion Design Services and Master Planning Services.

\* Close-out report not issued for sourcing category.

\*\* Comprised of the following sourcing subcategories: Maintenance, Repair and Operations (MRO) Supplies and Sanitary Paper.

The addressable spend included in the final ATK Contract amendment is significantly higher than the addressable spend reported by A.T. Kearney in the close-out reports for the Energy, Food and Maintenance Supplies sourcing categories. For the Energy sourcing category, the addressable spend included in the final ATK Contract amendment encompassed

## A Review of the Strategic Sourcing Initiative

non-addressable components, such as transportation charges and distribution, which are unable to be sourced. The addressable spend for the Food and Maintenance Supplies sourcing categories was less than originally anticipated because sourcing efforts were limited to a specific vendor.

For the Building Construction sourcing category, the addressable spend included in the final ATK Contract amendment is significantly less than the combined addressable spend reported by A.T. Kearney in the close-out reports for each sourcing subcategory. The change resulted from including different sourcing subcategories than initially identified. Detailed information for the addressable spend of each sourcing category is included in the “Strategic Sourcing Categories” section of this report.

**Savings** – The following **Table** summarizes the target contracted annualized savings (targeted savings) included in the original ATK Contract the final ATK Contract amendment, the actual savings included in the close-out reports from A.T. Kearney and the validated actual savings for each sourcing category. The savings for each sourcing category is discussed further in the “Strategic Sourcing Categories” section of this report.

Sourcing Categories per Close-out Report	Original ATK Contract	ATK Contract Amendment	Reported by A.T. Kearney	Validated
Building and Construction ^	\$ 1,348,232	251,937	947,799	485,071
Fleet	1,180,226	943,600	25,932	-
Food	848,522	216,000	81,005	81,005
Fuel Card	176,152	186,000	138,466	138,466
IT Contractors *	273,236	-	-	-
Maintenance Supplies**	1,419,879	294,876	207,485	173,915
Office Equipment	978,027	159,030	276,519	276,519
Office Supplies	2,214,310	722,212	787,495	787,495
Print and Promotion *	1,738,415	-	-	-
Stationery/Printed Forms/Labels *	389,736	-	-	-
Natural Gas	-	631,044	920,413	927,232
Total	\$ 10,566,735	3,404,699	3,385,114	2,869,703

^ Comprised of the following sourcing subcategories: Roofing Design, Building Automation, Master A&E, WRC WWTF and IVH Dock Dayroom Expansion Design Services and Master Planning Services.

\* Close-out report not issued for sourcing category.

\*\* Comprised of the following sourcing subcategories: MRO Supplies and Sanitary Paper.

The targeted savings included in the final ATK Contract amendment is significantly higher than the actual savings reported by A.T. Kearney in the close-out reports for the Fleet and Food sourcing categories. The competitive pricing previously achieved for the Fleet sourcing category resulted in difficulty obtaining additional actual savings. As stated previously, sourcing efforts were limited to a specific vendor for the Food sourcing category. As a result, less actual savings than anticipated were reported.

For the Energy and Building Construction sourcing categories, the targeted savings included in the final ATK Contract amendment is significantly less than the actual savings reported by A.T. Kearney in the close-out reports. Although the addressable spend was reduced for the Energy sourcing category, A.T. Kearney was still able to achieve significant savings through enrollment of State agencies in a managed procurement fund and reduction of vendor

administrative fees. As stated previously, the primary reason for the increase in the reported amount for the Building Construction sourcing category is including different sourcing subcategories than initially identified. Detailed information for the targeted and actual savings of each sourcing category is included in the “Strategic Sourcing Categories” section of this report.

### **Actual Savings as a Percentage of Targeted Savings**

In accordance with the ATK contract, the final payment to A.T. Kearney was subject to performance evaluation. The final payment could be as much as \$766,000, depending upon the actual savings validated. A partial payment of \$383,000 was made to A.T. Kearney based on the preliminary reports received from the Office of Auditor of State validating actual savings for individual sourcing categories once 50% of targeted savings was validated. As of the end of our fieldwork in early April 2007, the validated actual savings of \$2,869,703 was 77.6% of the targeted savings of \$3,697,513 included in the third ATK Contract amendment. Because 80% of the targeted savings had not been achieved, A.T. Kearney was not eligible to receive the remaining \$383,000 in accordance with the terms of the third ATK Contract amendment.

However, the final ATK Contract amendment, effective May 1, 2007, for Wave 1 reduced the total targeted savings to \$3,404,699 by eliminating the Print and Promotion sourcing category. As a result of this change, the validated actual savings of \$2,869,703 is 84.39% of the reduced targeted savings amount, and A.T. Kearney became eligible to receive the remaining \$383,000 of the performance-based compensation. This final payment was made on May 1, 2007.

### **Future Review**

As previously stated, actual savings is an estimated savings amount and does not represent realized savings. Because the actual savings validated in this report is an estimated amount which could potentially be achieved if certain assumptions are met, consideration should be given to validation or review of the realized savings achieved by the end of fiscal year 2007 or 2008. The fiscal year to be reviewed would depend on the effective date of the contracts implemented for each sourcing category. This validation or review would use actual purchase information rather than historical or projected.

In addition, this report includes other items for consideration in the administration of the Strategic Sourcing Initiative.

## **Strategic Sourcing Initiative**

In 2005, representatives of the Department of Administrative Services (DAS) implemented a Strategic Sourcing Initiative with assistance from A.T. Kearney, a management consulting firm. The assistance was provided as a result of a multi-phased contract process. A.T. Kearney defined Strategic Sourcing as a “disciplined, systematic process for approaching the supply market” or a “defined process designed to reduce the total costs of externally purchased material, goods and services while maintaining or improving the level of quality, service and technology.” A.T. Kearney was to provide specific services within each Phase of the contract. The following four principles were identified by A.T. Kearney as Strategic Sourcing components:

- 1) Understand and define the total value of the relationship between the State and the supplier.
- 2) Develop solutions based on a deep understanding of suppliers’ economics and business dynamics.
- 3) Apply new tools and techniques to optimize the supplier relationships and maximize savings.
- 4) Embed the required changes in the organization so the State can continuously improve.

### **PHASE I CONTRACT**

In March 2005, DAS contracted with A.T. Kearney for the provision of Phase I Strategic Sourcing Services. Phase I was defined as an opportunity assessment during which A.T. Kearney reviewed the purchasing practices of the State, extracted and analyzed preliminary spend data and planned the implementation of Strategic Sourcing within the State, including identification of the sourcing categories. An Innovations Fund loan application was filed with the Department of Management (DOM) after the completion of Phase I to secure funding for the Initiative. According to the application, addressable spend of at least \$750 million had been identified, with targeted savings ranging from \$34 million to \$98 million.

### **PHASE II, WAVE 1 CONTRACT**

In October 2005, DAS entered into a contract with A.T. Kearney (ATK Contract) for a portion of Phase II of the Strategic Sourcing Initiative. According to the ATK Contract, Phase II was divided into 3 Waves. The ATK Contract established in October 2005 was for Wave 1. The duration of the ATK Contract was established as July 1, 2005 through February 29, 2006.

**Objective** - The ATK Contract was established to achieve significant savings in the sourcing categories identified during the opportunity assessment conducted by A.T. Kearney representatives during Phase I of the Strategic Sourcing Initiative. The goals of Wave 1 included revising sourcing approaches in order to generate significant savings during the 2006 calendar year and improving procurement processes and practices. These goals were to be accomplished through analysis of the State’s spending and use of more effective sourcing and business practices.

For each sourcing category specified in the ATK Contract, addressable spend and target contracted annualized savings (targeted savings) amounts were also identified. According to the ATK Contract, addressable spend is defined, in part, as “the proportion of expenditures by the State in a given category that DAS, Independent Purchasing Authorities and other Participating Departments or Agencies agree are considered viable for a strategic sourcing initiative.” Targeted savings is defined, in part, as “the amount of savings projected by the Contractor as the amount which can be saved for Wave 1.” **Appendix A** includes definitions of the terms used in this report.

**A Review of the Strategic Sourcing Initiative**

The sourcing categories identified in the ATK Contract for Wave 1, the related addressable spend and targeted savings are listed by sourcing category in **Table 1**. As illustrated by the **Table**, total targeted savings of \$10,566,735 were identified in the original ATK Contract for Wave 1. Addressable spend was based on fiscal year 2004 data obtained from the State.

**Table 1**

<b>Sourcing Category</b>	<b>Addressable Spend</b>	<b>Targeted Savings</b>
Building Construction, Management	\$ 44,941,074	1,348,232
Fleet: Vehicles, Supplies, Services	16,860,377	1,180,226
Food	28,284,059	848,522
Fuels, Oils	8,807,603	176,152
IT Contractors	5,464,727	273,236
Maintenance Supplies	46,669,154	1,419,879
Office Equipment	9,780,274	978,027
Office Supplies	27,678,870	2,214,310
Print and Promotion	19,795,990	1,738,415
Stationery/Printed Forms/Labels	2,598,239	389,736
Grand Total	\$ 210,880,367	10,566,735

In accordance with the ATK Contract, the services to be performed by A.T. Kearney included development of trustful long-term relationships with the State’s suppliers, transfer of knowledge to State staff through formal training and coaching and organization of the strategic sourcing project into 3 major Work Streams of Program Management, Process Improvement and Strategic Sourcing. (**Appendix A** includes the definition of Work Streams.)

In addition, A.T. Kearney was to develop and recommend revised sourcing approaches to generate substantial savings during the 2006 calendar year and improvements to procurement processes and practices. This was to be accomplished by completing a thorough analysis of the State’s spending and the use of more effective sourcing and business practices.

**Cost of the Contracts** – The ATK Contract included both a set fee component and a performance-based component. The set fees were to be paid upon completion of the planned phases of the Initiative. Payment for Phase I was deferred until Wave 1 of Phase II was implemented. The set fees are summarized in **Table 2**.

**Table 2**

<b>Description</b>	<b>Amount</b>
Phase I Strategic Sourcing Opportunity Assessment	\$ 192,500.00
Phase II Program Management for Wave 1	485,332.98
Phase II Process Improvement Work Stream	720,000.00
Phase II Strategic Sourcing Work Stream	1,534,000.00
Total	\$ 2,931,832.98

An additional final payment of \$766,000 was subject to performance evaluation. As established by the ATK Contract, the performance-based compensation to A.T. Kearney is

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## A Review of the Strategic Sourcing Initiative

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dependent upon the independently audited actual contracted annualized savings (actual savings) achieved as a result of the Initiative, expressed as a percentage of the targeted savings. Actual savings is defined in the ATK Contract, in part, as the “accumulation of dollars as determined through the “Savings Calculations.” (**Appendix A** includes the complete definition.) Actual savings is an estimated savings amount and does not represent realized savings. The estimated amount could potentially be achieved if certain assumptions are met. However, there is no assurance the estimated amount will be realized. The ATK Contract established the following 4 compensation levels based on the performance level achieved.

- (1) For actual savings less than 50% of targeted savings, A.T. Kearney was not to receive any compensation in addition to the set fee.
- (2) For actual savings greater than 50% but less than 80% of targeted savings, A.T. Kearney was to prorate the final invoice to match the percentage shortfall from 80%.
- (3) For actual savings greater than 80% but less than 125% of targeted savings, A.T. Kearney was to be paid the full \$766,000.
- (4) For actual savings greater than 125% of targeted savings, A.T. Kearney was to be paid an additional 5% of the difference between 125% and the percentage saved, up to a maximum additional amount of \$1,000,000.

The ATK Contract also specified if the addressable spend and/or targeted savings were reduced significantly in the opinion of DAS, the compensation package was to be renegotiated. This section of the ATK Contract was amended as indicated in the contract amendments section of this report.

By May 1, 2007, A.T. Kearney had received total payments of \$3,697,832.98, consisting of \$2,931,832.98 of set fees and performance-based compensation of \$766,000. A partial payment of \$383,000 was made January 9, 2007 based on preliminary reports received from the Office of Auditor of State validating actual savings for individual sourcing categories. The actual savings validated in the preliminary reports was greater than 50% but less than 80%.

**Funding Sources** - Various funding sources have been used to finance the Strategic Sourcing Initiative. As of February 28, 2007, the account within the State of Iowa’s accounting system used to track the Strategic Sourcing Initiative included revenues totaling \$5,549,349. Of that amount, \$2.3 million was from an Innovations Fund loan and \$3,249,349 had been received from State agency billings provided for by Strategic Sourcing Memorandums of Understanding (MOUs).

DAS applied for and received a \$2.3 million loan from the State’s Innovations Fund administered by DOM. On January 26, 2006, DAS and DOM agreed to an Innovations Fund Promissory Note and Loan Agreement requiring DAS to repay \$2,438,000 to DOM, consisting of the \$2.3 million loan plus \$138,000 interest, by January 25, 2008. The loan agreement provided the proceeds must be used by DAS to implement the approved Strategic Sourcing Initiative and for no other purpose.

At the beginning of the Strategic Sourcing Initiative, State agencies were asked by DAS to participate in the Initiative and complete an MOU to document support for the Initiative. By completing the MOUs, the State agencies agreed to pay DAS the amount specified in the fee payment schedule attached to the MOUs. The repayments are to be used for repayment of the Innovations Fund Loan and related interest. According to the terms of the MOUs, the State agencies’ final payment will be adjusted for the actual percentage of savings achieved as verified by the independent audit. The payments from the State agencies included \$175,000 received during fiscal year 2005 prior to Phase II, Wave 1 of Strategic Sourcing, and \$2,297,994.33 and \$776,354.43 during fiscal years 2006 and 2007, respectively. **Schedule 1** summarizes the payments by State agency for fiscal years 2005 through 2007.

**A Review of the Strategic Sourcing Initiative**

In addition to the scheduled fees under the MOUs, DAS planned an additional charge of \$96.96 for each vehicle in the State’s fleet to assist in financing the Strategic Sourcing Initiative. However, according to a July 18, 2006 memo, DAS subsequently decided to reduce each State agency’s cash balance within the Vehicle Depreciation Fund by \$96.96 for each vehicle owned by the agency. The Vehicle Depreciation Fund is used to accumulate payments made by State agencies for future vehicle purchases. The total amount of the cash balance reduction for fiscal year 2006 was \$264,700.80. **Schedule 2** lists the reductions by State agency.

**Contract Amendments** – Between February 2006 and August 2006, the ATK Contract was amended on 3 occasions. The amendments are summarized as follows:

**First Amendment** - The first amendment to the ATK Contract revised the duration of the contract. The termination date of the ATK Contract was extended to June 30, 2006. The amendment was agreed to on February 22, 2006.

**Second Amendment** - The second amendment to the ATK Contract revised both the duration and the independent audit requirement. The termination date of the ATK Contract was extended to October 31, 2006. In addition, the independent audit requirement was modified to state the audit was to be conducted upon completion of each of the Wave 1 Strategic Sourcing categories. As a result, the Office of Auditor of State issued preliminary reports to DAS as the validation procedures for each sourcing category were completed. The amendment was agreed to on June 29, 2006.

**Third Amendment** - The third ATK Contract amendment became effective on August 11, 2006 and revised the sourcing categories, reduced the addressable spend by \$145,220,063, reduced the targeted savings by \$6,869,222 and revised the performance-based compensation levels.

**Table 3** lists the original and revised addressable spend and targeted savings amounts by sourcing category. The modifications to addressable spend resulted from a review of spend information by the participating State agencies and consideration of more recent spend data. As also illustrated by the **Table**, the IT Contractors and the Stationery/Printed Forms/Labels sourcing categories included in the original ATK Contract were deleted and the Energy sourcing category was added. The **Table** also illustrates total targeted savings for Wave 1 was reduced to \$3,697,513 from \$10,566,735.

**Table 3**

Sourcing Category	Addressable Spend		Targeted Savings	
	Original Amount	Revised Amount	Original Amount	Revised Amount
Building Construction, Management	\$ 44,941,074	5,038,738	1,348,232	251,937
Fleet: Vehicles, Supplies, Services	16,860,377	13,480,000	1,180,226	943,600
Food	28,284,059	7,200,000	848,522	216,000
Fuels, Oils	8,807,603	9,300,000	176,152	186,000
IT Contractors	5,464,727	-	273,236	-
Maintenance Supplies	46,669,154	4,914,607	1,419,879	294,876
Office Equipment	9,780,274	1,590,300	978,027	159,030
Office Supplies	27,678,870	9,027,644	2,214,310	722,212
Print and Promotion	19,795,990	2,928,143	1,738,415	292,814
Stationery/Printed Forms/Labels	2,598,239	-	389,736	-
Energy	-	12,180,872	-	631,044
Grand Total	\$ 210,880,367	65,660,304	10,566,735	3,697,513



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Throughout the course of the Initiative, the sourcing subcategories for Building Construction were modified by DAS and A. T. Kearney several times, as follows:

- The July 12, 2006 milestone report prepared by A.T. Kearney included Building Construction subcategories of Roofing Design, Building Automation/Security/Fire and Safety (Building Automation), 1000 East Grand Asbestos Abatement, Master Architectural & Engineering (A&E), Woodward Resource Center (WRC) Wastewater Treatment Facility (WWTF) and Toledo School House.
- The July 19, 2006 milestone report added the Mason City State Patrol Post as a sourcing subcategory.
- The August 16, 2006 milestone report deleted the Toledo School House and added the Iowa Veteran's Home (IVH) Dack Dayroom Expansion Design Services and Master Planning Services as a sourcing subcategory.
- According to correspondence received from a DAS representative on August 31, 2006, the 1000 East Grand Asbestos Abatement and the Mason City State Patrol Post sourcing subcategories were removed from the category.

The Maintenance Supplies sourcing category was divided into 2 sourcing subcategories, Maintenance, Repair and Operations (MRO) Supplies and Sanitary Paper.

The third amendment did not modify the final payment amount of \$766,000. However, the performance-based compensation levels were modified as follows:

- (1) For actual savings of at least 50% but less than 80% of targeted savings, a payment of \$383,000, or half of the final payment, was to be made.
- (2) For actual savings of 80% or more of targeted savings, the remaining \$383,000 of the \$766,000 payment was to be made. Payments were to be based on the preliminary actual savings figures validated by the audit required by the ATK Contract. Once the final audit report is received by DAS, a reconciliation is to be made between the preliminary actual savings and final actual savings to determine whether the preliminary payments made must be adjusted.
- (3) The section of the ATK Contract awarding a bonus payment if actual savings achieved exceeded 125% of targeted savings was deleted in its entirety.

**Final Amendment** – The final ATK Contract amendment became effective on May 1, 2007 and eliminated the Print and Promotion sourcing category. It reduced addressable spend by an additional \$2,928,143 and targeted savings by \$292,814. The amendment is explained in greater detail in the section titled “Event Subsequent to Completion of Audit Fieldwork” on page 13.

**Reports from A.T. Kearney** – As the work was completed for each sourcing category included in **Table 3**, A.T. Kearney completed a sourcing category close-out report including the addressable spend and actual savings identified and a brief description of the methodology and process used to determine the amounts.

Although the name of each sourcing category remained consistent between the original ATK Contract and the final ATK Contract amendment, the sourcing category close-out reports from A.T. Kearney referred to some of the sourcing categories by a different description. In some cases, the change was a result of the reduction of the sourcing category's scope. For instance, the “Fuels, Oils” sourcing category had been reduced to only Fuel Cards by the time the sourcing category close-out report was prepared.

**Table 4** illustrates the name of each sourcing category included in the final ATK Contract amendment and the name of the sourcing category as referred to in the sourcing category

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close-out report. Each sourcing category is referred to by the name used in the sourcing category close-out report for the remainder of this report. The **Table** also identifies which sourcing categories for which the scope was reduced.

**Table 4**

<b>ATK Contract Amendment</b>	<b>Close-out Report</b>
* Building Construction, Management	Building and Construction
* Fleet: Vehicles, Supplies, Services	Fleet ( <i>vehicles only</i> )
Food	Food
* Fuels, Oils	Fuel Card
Maintenance Supplies	Maintenance Supplies
Office Equipment	Office Equipment
Office Supplies	Office Supplies
Print and Promotion	<i>Not reported on by A.T. Kearney<sup>^</sup></i>
* Energy	Natural Gas

\* - Scope was reduced to only the services/products identified in the column for the close-out report.

<sup>^</sup> - See section of report titled “**Event Subsequent to Completion of Audit Fieldwork**”.

**Provision for Independent Audit** - The ATK Contract required an independent audit be conducted by an outside auditing entity upon completion of Wave 1 services. The ATK Contract required the audit to review and validate the actual savings to be used in determining performance-based compensation.

In order to validate the actual savings, it was necessary to consider the revised sourcing approaches used by DAS and A.T. Kearney, process improvements and the Strategic Sourcing Work Stream, which included category and supplier profiling, sourcing strategy formulation, analysis and negotiation support, implementation and integration planning. The results of these services performed by A.T. Kearney were documented in the sourcing category close-out reports for validation.

Our review was conducted to satisfy the “Independent Audit” required by section 6.5.2 of the ATK Contract DAS entered into with A.T. Kearney in 2005 for Strategic Sourcing Services. The procedures performed are summarized in the Independent Auditor’s Report. The primary objective of the review was to validate addressable spend and actual savings reported by A.T. Kearney in the close-out reports for each sourcing category.

During the course of our fieldwork, we issued preliminary reports for each sourcing category. The purpose of the preliminary reports was to provide validated addressable spend and actual savings amounts to DAS to allow for timely payment to A.T. Kearney. This final, comprehensive report expands upon the preliminary report results. Specifically, this report addresses the methodologies used for each sourcing category, the documentation and calculations used to arrive at addressable spend and actual savings and other aspects of Strategic Sourcing relevant to the validation process.

**Event Subsequent to Completion of Audit Fieldwork** – The final preliminary report was issued during the first week of April 2007. A total of \$2,869,703 of validated actual savings was identified in the preliminary reports. The amount validated was less than the \$2,958,010 required by the 80% threshold of targeted savings established in the third ATK Contract amendment for payment of the full portion of the performance-based compensation. However, DAS processed a payment to A.T. Kearney for the remaining \$383,000 of performance-based compensation on May 1, 2007.

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Subsequent to issuance of our last preliminary report but prior to issuance of our final report, the ATK Contract was again amended for Wave 1. The amendment was signed by the Director of DAS on April 23, 2007 and a representative of A.T. Kearney on May 1, 2007, the same date the \$383,000 payment was processed.

Between the time of the issuance of our last preliminary report and the final ATK Contract amendment, we met or communicated with DAS representatives on several occasions. We were not informed about the new amendment until our final report had been drafted and was within days of issuance. We received notification of the new ATK Contract amendment from a DAS representative on June 21, 2007.

This final ATK Contract amendment reduced the total targeted savings amount from \$3,697,513 to \$3,404,699. This \$292,814 reduction resulted from eliminating the Print and Promotion sourcing category from the previously amended ATK Contract. The final ATK Contract amendment was made in late April 2007 although A.T. Kearney had attempted to achieve actual savings for the Print and Promotion sourcing category in July 2006 without success.

In addition, the following information was available regarding changes made to the addressable spend and targeted savings for the Print and Promotion sourcing category.

- In the July 25, 2006 Milestone Tracking Report prepared by representatives of A.T. Kearney and provided to DAS, a notation was made stating “7/27/06: DHS has decided to extend current contract, effectively ending the sourcing of the Print category.”
- On August 11, 2006, the third ATK Contract amendment became effective. The amount of addressable spend was reduced from \$19,795,990 to \$2,928,413 and targeted savings was reduced from \$1,748,415 to \$292,814 for the Print and Promotion sourcing category.
- In the August 16, 2006 Milestone Tracking Report, a notation was made stating, in part, “8/09/06: strategic sourcing on this category will not continue” for the Print and Promotion sourcing category.

At the time the final ATK Contract amendment was signed, it was apparent A.T. Kearney had not achieved sufficient actual savings to qualify for the final \$383,000 of performance-based compensation. However, because the total targeted savings amount was decreased by the final ATK Contract amendment, the amount of savings required to receive the remaining portion of the performance-based compensation was reduced to \$2,723,759. Because \$2,869,703 of actual savings had been validated, A.T. Kearney became eligible to receive the remaining \$383,000 of performance-based compensation. However, in accordance with the terms of the ATK Contract, the payment was not to have been made until the completion of the independent audit. Because the audit is not considered complete until issuance of this report, DAS is not in compliance with the terms of the ATK Contract.

The final ATK Contract amendment also resulted in the cost of the contract exceeding the first year targeted savings by over \$290,000. **Table 5** compares the cost of the contract to the targeted savings for the original ATK contract, the third ATK Contract amendment and the final ATK Contract amendment. This comparison does not include any other administrative costs incurred by DAS or other State agencies for administration of the ATK Contract.

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**Table 5**

<b>Description</b>	<b>Original ATK Contract</b>	<b>3<sup>rd</sup> ATK Contract Amendment</b>	<b>Final ATK Contract Amendment</b>
Set fees ( <b>Table 2</b> )	\$ 2,931,832.98	2,931,832.98	2,931,832.98
Performance-based compensation	766,000.00	766,000.00	766,000.00
Total contract costs	3,697,832.98	3,697,832.98	3,697,832.98
Targeted savings	10,566,735.00	3,697,513.00	3,404,699.00
Cost as a percentage of savings	35.00%	100.01%	108.61%

It is not readily apparent why DAS found it to be in the best interest of the State to enter into the final ATK Contract amendment which enabled A.T. Kearney to be paid the remaining performance-based compensation of \$383,000. We contacted the Attorney General's Office to ensure the final ATK Contract amendment for Wave 1 was valid since it was made after the termination date of October 31, 2006. After considering a number of factors the Attorney General's Office advised the amendment appeared valid.

## Summary of Results

The following paragraphs summarize the results of our validation of the addressable spend and actual savings reported by A.T. Kearney in the close-out reports for each sourcing category.

### Addressable Spend

**Table 6** summarizes the addressable spend amounts included in the final ATK Contract amendment, the close-out reports from A.T. Kearney and the validated amount for each sourcing category. The addressable spend for each sourcing category is discussed further in the “Strategic Sourcing Categories” section of this report starting on the page shown in the **Table**.

**Table 6**

<b>Sourcing Categories</b>	<b>Page</b>	<b>ATK Contract Amendment</b>	<b>Reported by A.T. Kearney</b>	<b>Validated</b>
Fuel Card	19	\$ 9,300,000	9,300,000	9,300,000
Office Supplies	20	9,027,644	9,027,644	9,027,644
Office Equipment	22	1,590,300	1,369,430	1,369,430
Natural Gas	24	12,180,872	8,041,961	7,129,879
Fleet	26	13,480,000	13,200,019	13,200,019
Food	27	7,200,000	1,342,792	1,342,792
Building and Construction <sup>^</sup>	29	5,038,738	9,439,443	4,327,825
Maintenance Supplies <sup>**</sup>	36	4,914,607	1,161,005	1,041,119
Print and Promotion	40	-	-	-
Total		\$ 62,732,161	52,882,294	46,738,708

<sup>^</sup> Comprised of the following sourcing subcategories: Roofing Design, Building Automation, Master A&E, WRC WWTF and IVH Dock Dayroom Expansion Design Services and Master Planning Services.

<sup>\*\*</sup> Comprised of the following subcategories: MRO Supplies and Sanitary Paper.

The addressable spend included in the final ATK Contract amendment is significantly higher than the addressable spend reported by A.T. Kearney in the close-out reports for the Natural Gas, Food and Maintenance Supplies sourcing categories. For the Natural Gas sourcing category, the addressable spend included in the final ATK Contract amendment encompassed non-addressable components, such as transportation charges and distribution, which are unable to be sourced. The addressable spend for the Food and Maintenance Supplies sourcing categories was less than originally anticipated because sourcing efforts were limited to a specific vendor.

For the Building and Construction sourcing category, the addressable spend included in the final ATK Contract amendment is significantly less than the addressable spend reported by A.T. Kearney in the close-out reports for each subcategory. The change in the reported amount resulted from including different sourcing subcategories than initially identified. In addition, DAS and A.T. Kearney chose not pursue the Print and Promotion sourcing category. As a result, addressable spend was not presented for validation. Detailed information for the addressable spend of each sourcing category is included in the “Strategic Sourcing Categories” section of this report.

**Savings**

**Table 7** summarizes the savings amounts included in the final ATK Contract amendment, the close-out reports from A.T. Kearney and the validated amounts for each sourcing category. The savings for each sourcing category is discussed further in the “Strategic Sourcing Categories” section of this report starting on the page shown in the **Table**.

**Table 7**

<b>Sourcing Categories</b>	<b>Page</b>	<b>ATK Contract Amendment</b>	<b>Reported by A.T. Kearney</b>	<b>Validated</b>
Fuel Card	19	\$ 186,000	138,466	138,466
Office Supplies	21	722,212	787,495	787,495
Office Equipment	23	159,030	276,519	276,519
Natural Gas	25	631,044	920,413	927,232
Fleet	26	943,600	25,932	-
Food	28	216,000	81,005	81,005
Building and Construction <sup>^</sup>	30	251,937	947,799	485,071
Maintenance Supplies <sup>**</sup>	37	294,876	207,485	173,915
Print and Promotion	40	-	-	-
<b>Total</b>		<b>\$ 3,404,699</b>	<b>3,385,114</b>	<b>2,869,703</b>

<sup>^</sup> Comprised of the following sourcing subcategories: Roofing Design, Building Automation, Master A&E, WRC WWTF and IVH Dack Dayroom Expansion Design Services and Master Planning Services.

<sup>\*\*</sup> Comprised of the following sourcing subcategories: MRO Supplies and Sanitary Paper.

The targeted savings included in the final ATK Contract amendment is significantly higher than the actual savings reported by A.T. Kearney in the close-out reports for the Fleet and Food sourcing categories. The competitive pricing previously achieved for the Fleet sourcing category resulted in difficulty obtaining additional savings. As stated previously, sourcing efforts were limited to a specific vendor for the Food sourcing category. As a result, less actual savings than anticipated was reported.

For the Natural Gas and Building and Construction sourcing categories, the targeted savings included in the final ATK Contract amendment is significantly less than the actual savings reported by A.T. Kearney in the close-out reports. Although the addressable spend was reduced for the Natural Gas sourcing category, A.T. Kearney was still able to achieve significant savings through enrollment of State agencies in a managed procurement fund and reduction of vendor administrative fees. As stated previously, the primary reason for the increase in the reported amount for the Building and Construction sourcing category is including different sourcing categories than initially identified. In addition, DAS and A.T. Kearney chose not to pursue the Print and Promotion sourcing category. Detailed information for the targeted savings of each sourcing category is included in the “Strategic Sourcing Categories” section of this report.

**Actual Savings as a Percentage of Targeted Savings**

At the end of our fieldwork, the validated actual savings of \$2,869,703 shown in **Table 7** was 77.6% of the targeted savings of \$3,697,513 included in the third ATK Contract amendment. Because 80% of the targeted savings had not been achieved, A.T. Kearney was not eligible to receive the remaining \$383,000 in accordance with the terms of the third ATK Contract amendment.

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However, the final amendment to the ATK Contract for Wave 1 reduced the total targeted savings to \$3,404,699, as shown in **Table 7**, by eliminating the Print and Promotion sourcing category. As a result of this change, the validated actual savings of \$2,869,703 equals 84.3% of the targeted savings thereby allowing A.T. Kearney to receive the final payment of \$383,000.

## Strategic Sourcing Categories

### FUEL CARD

**Addressable Spend** – The final ATK Contract amendment includes addressable spend of \$9.3 million for the Fuel Card sourcing category. This same amount was reported by A.T. Kearney in the sourcing category close-out report, consisting of \$4.3 million for DAS and \$5 million for the Department of Transportation (DOT). We have validated the \$9.3 million addressable spend reported.

Addressable spend was calculated based on information obtained from DAS’ General Services Enterprise (GSE) and DOT. “Major Fleet Activity Reports” provided by Wright Express Financial Services for January 2006 through March 2006 were used to calculate an average monthly spend of \$356,246 for GSE activity. This average was multiplied by 12 to estimate annual spend of \$4,274,952, which was rounded to \$4.3 million.

From the DOT Accounts Payable System, a detailed vendor report was prepared for Wright Express. The report showed a total of \$4,932,824 spent in fiscal year 2005. This amount was rounded to \$5 million.

**Targeted Savings** – Responses from 3 vendors were evaluated under a Request for Proposal (RFP) for Fuel Card services. Wright Express submitted 2 separate proposals. After reviewing the RFP responses, DAS and DOT entered into a contract with Wright Express Financial Services for the provision of fuel cards. The 1-year contract, effective June 1, 2006, allows for 5 additional 1-year renewal periods for the same or more favorable terms.

**Table 8** compares the targeted savings included in the final ATK Contract amendment with the actual savings reported by A.T. Kearney for the Fuel Card sourcing category in the close-out report. We have validated the actual savings reported. As illustrated by the **Table**, the targeted savings included in the final ATK Contract amendment was not met.

<b>Table 8</b>	
<b>Savings</b>	<b>Amount</b>
Validated actual savings	\$ 138,466
Targeted savings	186,000
Difference	(\$ 47,534)
Percent of targeted savings	74.4%

The actual savings of \$138,466 includes a volume rebate, a vendor rebate, a prompt payment discount and a one time signing bonus. A volume rebate of \$93,000 was incorporated into the Wright Express Financial Services contract. This was calculated by applying the rebate percentage of 1% to the total dollar amount of the monthly transactions. As the amount was based on the addressable spend of \$9.3 million, the 1% volume rebate was calculated at \$93,000. The rebate payments are to be made each month in arrears. In addition, a \$0.25 per gallon Kum & Go rebate on all Kum & Go purchases was negotiated. The total amount of this rebate was calculated at \$17,216 based on reports from DAS-GSE and DOT showing the number of gallons purchased from Kum & Go during calendar year 2005. The close-out report assumes the full rebates will be realized.

The prompt payment discount of .165%, or \$8,250, applies only to DOT. The Wright Express contract states a .165% prompt payment discount will be given on all transactions where the invoice is paid in full within 15 calendar days of the billing date. The discount is calculated



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and will be paid in the same manner as the volume rebate. The close-out report assumes the full discount will be realized. Finally, a one time signing bonus was provided by Wright Express Financial Services. **Table 9** summarizes the components of the actual savings of \$138,466.

**Table 9**

Description	DAS	DOT	Total
Volume rebate	\$ 43,000	50,000	93,000
Kum and Go rebate	5,870	11,346	17,216
Prompt payment discount	-	8,250	8,250
One time signing bonus	9,247	10,753	20,000
Total first year estimated savings	\$ 58,117	80,349	138,466

Realized savings may vary significantly from the amounts presented in **Table 9**, depending on purchase volume and payment practices.

We inquired about the shortfall in savings with a representative of DAS and received a written response from a representative of A.T. Kearney. According to the representative, the original targeted savings for Fuels and Oils was 2% of addressable spend, or \$186,000. When the ATK Contract was subsequently revised and the category adjusted to Fuel Cards, the estimate migrated to the ATK Contract amendment amount effective at that time. The representative’s written response also stated “the actual savings goal for Fuel Cards within the category team had always been 1% [\$93,000] of the addressable spend. The Fuel Card close out report was completed before the contract addendum was completed; therefore, the language reflects our savings goal of 1% [\$93,000].”

The final ATK Contract amendment does not identify a percentage of the addressable spend for the targeted savings. Rather, the final ATK Contract amendment specifies \$186,000 of targeted savings. Our results are based on the targeted savings of \$186,000 included in the written and approved final ATK Contract amendment.

**OFFICE SUPPLIES**

**Addressable Spend** – The final ATK Contract amendment includes addressable spend of \$9,027,644 for the Office Supplies sourcing category. This same amount was reported by A.T. Kearney in the sourcing category close-out report. We have validated the \$9,027,644 addressable spend reported.

Addressable spend was calculated based on fiscal year 2005 spend data obtained from vendors, the Board of Regents’ institutions (Regents), State agencies and the State’s accounting system. Detailed quantity and price data in the amount of \$6,899,924 was obtained from vendors such as OfficeMax, Office Depot and Storey-Kenworthy. Data received showed each product purchased from the vendor, the quantity purchased and the price paid for the item. Lump sum spend data was obtained from vendors such as Xerox and Xpedx, as well as Regents and State agencies. Total spend identified through lump sum data was \$1,584,658. DAS and A.T. Kearney also used the State’s accounting system to identify vendors used less frequently, such as Staples and Quill, and found an additional \$374,850. In addition, Regents reviewed their accounting systems and identified \$168,212 in office supplies spend not previously included. **Table 10** summarizes the components of Office Supplies addressable spend.

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**Table 10**

<b>Description</b>	<b>Amount</b>
Detailed vendor data	\$ 6,899,924
Lump sum vendor data	1,584,658
State accounting system review	374,850
Regents accounting system review	168,212
Total addressable spend	<u>\$ 9,027,644</u>

Of the total addressable spend, \$5,840,177, or 64.7%, consists of purchases from OfficeMax. The remaining \$3,187,467 is comprised of a combined spend from 16 other vendors. Office supplies spend for the 16 other vendors ranges from a high of approximately \$1.2 million for Xerox to a low of \$7,760 for Field Paper.

**Targeted Savings** – DAS, in conjunction with the Iowa Biotechnology Association (IBA), elected to renegotiate the contract IBA held with OfficeMax rather than issuing RFPs. IBA is a purchasing consortium whose members include the State of Iowa, Iowa State University (ISU), the University of Iowa (UI) and other governmental and non-governmental entities. IBA entered into a renegotiated contract with OfficeMax for the provision of office supplies effective May 1, 2006 and extending through October 31, 2009, the expiration date included in the original contract IBA held with OfficeMax. The renegotiated contract specifies an overall savings of at least 15% will be achieved, provided IBA purchases are at least \$5 million. DAS subsequently signed a master agreement with OfficeMax incorporating the terms and conditions specified in the IBA contract.

The renegotiated contract has 2 components, a core list and a non-core list. The core list is comprised of the top 80%, or 400, office supplies items purchased. The prices for the core list items are fixed at the level agreed upon in the signed contract for the duration of the contract, except for technology, toner and paper products which will have price increases following the producer price index. Prices for all core items are subject to adjustment at the annual review of the contract. The other 20% of office supplies items purchased, or the non-core items, have a flexible pricing structure which will change to reflect the current market price of the item.

Although total addressable spend for the Office Supplies sourcing category is \$9,027,644, as shown in **Table 10**, the actual savings reported by A.T. Kearney in the close-out report is based only on the \$5,840,177 portion of addressable spend attributable to OfficeMax. Because DAS and IBA chose to renegotiate the OfficeMax contract, the actual savings percentage calculated was applied only to the addressable spend associated with OfficeMax.

**Table 11** compares the targeted savings included in the final ATK Contract amendment with the actual savings reported by A.T. Kearney for the Office Supplies sourcing category in the close-out report. We have validated the actual savings reported. As illustrated by the **Table**, the targeted savings included in the final ATK Contract amendment was exceeded.

**Table 11**

<b>Savings</b>	<b>Amount</b>
Validated actual savings	\$ 787,495
Targeted savings	722,212
Difference	<u>\$ 65,283</u>
Percent of targeted savings	<u>109.0%</u>

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The actual savings of \$787,495 includes discounts for on-line orders, orders with a single point of delivery, spend volume, procurement card purchases, payment through Electronic Funds Transfer (EFT), prompt payment and average order size. The total additional discount included in the renegotiated contract with OfficeMax is 4.2%. This discount percentage results in \$205,974 of the \$787,495 total actual savings. The close-out report assumes the full discount percentage will be realized. However, the amount realized may vary significantly from the amounts presented in the Office Supplies sourcing category close-out report, depending on purchase volume and order and payment practices. Savings realized may also vary depending on the volume of “off-contract” spend which is shifted to OfficeMax. (“Off-contract” spend refers to purchases from vendors such as Staples, Office Depot, Xerox and other office supplies vendors.)

The total additional discount of 4.2% was calculated using the discounts included in the renegotiated contract with OfficeMax, as follows:

- An additional 1% discount if over 80% of the orders are placed on-line. The 1% discount included in the original IBA contract with OfficeMax for on-line orders was also carried forward to the renegotiated contract. Therefore, if total orders placed on-line exceed 80%, the total discount achieved will be 2%.
- An additional 1% discount for IBA members utilizing a single point of delivery. The original IBA contract with OfficeMax included a 2% discount for single point of delivery. Therefore, the total discount included in the renegotiated contract is 3%.
- An additional .7% incentive when annual spend volume equals \$5 million. The original IBA contract with OfficeMax included a 1% rebate for a spend volume of \$4 million. Therefore, the total volume rebate included in the renegotiated contract is 1.7%.
- A 0.5% discount for procurement card purchases. This discount was not included in the original IBA contract with OfficeMax.
- An additional 0.5% for payment made by EFT and prompt payment. The original IBA contract with OfficeMax included a 1% discount for payment made by EFT but no discount for prompt payment. The renegotiated contract includes a 0.5% discount for payment made by EFT and a 1% prompt payment discount. The net effect is the additional 0.5%.
- An additional 0.5% discount for orders with an average order size greater than \$200.00. This is in addition to the 1% discount included in the original IBA contract with OfficeMax for orders of this size. Therefore, the total discount included in the renegotiated contract is 1.5% for orders with an average order size greater than \$200.00. In addition, a 1% discount is given for orders with an average order size between \$150.00 and \$199.99. This discount was carried forward into the renegotiated contract from the original IBA contract with OfficeMax.

### **OFFICE EQUIPMENT**

**Addressable Spend** – The final ATK Contract amendment includes addressable spend of \$1,590,300 for the Office Equipment sourcing category. However, only \$1,369,430 was reported by A.T. Kearney in the sourcing category close-out report, which is \$220,870 less than the amount included in the final ATK Contract amendment. The \$1,590,300 included spend data from the University of Northern Iowa (UNI); however, information was not received from UNI as originally anticipated. We have validated the \$1,369,430 addressable spend reported.

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Addressable spend includes both copier purchases and annual maintenance. The amount was calculated based on fiscal year 2005 spend data obtained from vendors, Regents and State agencies. For copier purchases, the number of units purchased under DAS' contracts was obtained from the vendors. DOT, ISU and UI each provided detailed records showing the number of units purchased. Unit price and maintenance cost information was obtained from the vendor contracts, except for DOT which submitted detailed records showing the necessary information. **Table 12** summarizes Office Equipment addressable spend by agency.

**Table 12**

<b>Description</b>	<b>Amount</b>
DAS**	\$ 620,761
UI	388,786
ISU	213,091
DOT	146,792
Total addressable spend	<u>\$ 1,369,430</u>

\*\* Includes all units purchased by State agencies under DAS' vendor contracts.

**Targeted Savings** – Responses from 6 vendors were evaluated under an RFP for the provision of office equipment and annual maintenance. A.T. Kearney developed 4 award scenarios based on the evaluation of the 6 vendors. After consideration of the 4 scenarios presented, UI entered into contracts with Ikon Office Solutions, Koch Brothers and Oce Imagistics, Inc. for provision of office equipment and annual maintenance. The 1-year contracts, effective July 1, 2006, allow for 4 additional 1-year extensions. DAS subsequently signed a master agreement with the same 3 vendors incorporating the terms and conditions specified in the UI contracts.

**Table 13** compares the targeted savings included in the final ATK Contract amendment with the actual savings reported by A.T. Kearney for the Office Equipment sourcing category in the close-out report. We have validated the actual savings reported. As illustrated by the **Table**, the targeted savings included in the final ATK Contract amendment was exceeded.

**Table 13**

<b>Savings</b>	<b>Amount</b>
Validated actual savings	\$ 276,519
Targeted savings	159,030
Difference	<u>\$ 117,489</u>
Percent of targeted savings	<u>173.9%</u>

The actual savings of \$276,519 represents \$347,155 in unit price savings net of \$70,636 annual maintenance cost increases. The unit price savings and annual maintenance cost increases were calculated by comparing historical unit prices and yearly maintenance costs, identified during the calculation of addressable spend, to the unit prices and additional accessory costs and yearly maintenance costs included in the vendor proposals. The identified savings or increase amount was then applied to the fiscal year 2005 quantity used in the calculation of addressable spend. Realized savings may vary significantly from the amount presented in the Office Equipment sourcing category close-out report, depending on the office equipment needs of each individual agency.

The members of the category sourcing team from DOT and UI both raised specific concerns with the calculation of actual savings. According to the comments and/or exceptions included in the Office Equipment sourcing category close-out report, the members from DOT were concerned with the exclusion of a warranty period from the vendor contracts which would result in the accrual of maintenance costs from the date of purchase. A.T. Kearney included a response in the sourcing category close-out report which indicated a requirement for a warranty period was not included in the RFP, which had been reviewed and approved by the entire category sourcing team.

The UI category sourcing team members were concerned with the portion of actual savings directly related to their purchases. Throughout the process, UI had communicated the copier purchases at their institution were going to decrease by approximately 50% from fiscal year 2005 (used for addressable spend) to fiscal year 2006. They indicated the reduced spend would be more indicative of future office equipment purchases. Therefore, the actual savings calculated for UI is not representative of the savings which could be realized. The response from A.T. Kearney included in the sourcing category close-out report indicated fiscal year 2005 had been used for all entities included in the Office Equipment sourcing category for consistency. We obtained fiscal year 2006 office equipment purchases from a UI representative. Compared to fiscal year 2005, UI office equipment purchases decreased 55% in fiscal year 2006. This is primarily due to the University Hospitals and Clinics electing to lease instead of purchase. We did not obtain fiscal year 2006 office equipment purchases from any other Regents or State agencies. As a result, we were unable to determine if the decrease in UI purchases was offset by other agencies' increased purchases. Therefore, adjustments were not made to addressable spend and the resulting actual savings calculated.

## **NATURAL GAS**

**Addressable Spend** – The final ATK Contract amendment includes addressable spend of \$12,180,872 for the Natural Gas sourcing category. However, only \$8,041,961 was reported by A.T. Kearney in the sourcing category close-out report, which is \$4,138,911 less than the amount included in the final ATK Contract amendment. Non-addressable components, such as transportation and distribution, were included in the original addressable spend but not included in the amount reported. Also, savings within electricity spend were not pursued as originally intended. We have validated \$7,129,879 of the addressable spend reported.

The 3 components to natural gas costs are commodity costs, distribution and transportation. Commodity costs, or gas prices, is the only component which is addressable. Both distribution and transportation are regulated by the State of Iowa, so there is limited opportunity to achieve better prices in these areas.

Addressable spend was calculated based on fiscal year 2006 usage and price information obtained from State agencies and vendors, including MidAmerican Energy, Cornerstone Energy and Alliant Energy. Natural gas spend for facilities which would not benefit from the newly negotiated prices were excluded from addressable spend. The facilities already receiving a better price included the Glenwood Resource Center, the Mt. Pleasant Correctional Facility and the Iowa State Penitentiary. In addition, Regents did not participate.

Validated addressable spend is \$912,082 less than the amount reported by A.T. Kearney in the Natural Gas sourcing category close-out report. The variances identified during validation are listed in **Table 14**.

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<b>Description</b>	<b>Amount</b>
Reported addressable spend	\$8,041,961
Less:	
Footing error	(807,037)
Use of therms (a unit of heating value) instead of dollars for 2 state agencies	(97,010)
Inclusion of the Department of Corrections (DOC) – Mt. Pleasant	(33,507)
Add:	
February 2006 data for DOC – Oakdale, previously excluded	25,376
Immaterial variance for the Department of Human Services (DHS)	96
Validated addressable spend	<u>\$7,129,879</u>

**Targeted Savings** – Cost information from 2 vendors, Cornerstone Energy and the Iowa Joint Utilities Management Program, was evaluated. After reviewing the cost information, DAS entered into an amendment to the existing Managed Procurement Fund (MPF) contract with Cornerstone Energy for the procurement of natural gas. The amendment, effective November 1, 2006 and extending through October 31, 2010, modifies the contract language to include all State agencies and reduce the management fee.

A.T Kearney reported actual savings of \$920,413 for the Natural Gas sourcing category in the close-out report. We have validated actual savings of \$927,232, which is \$6,819 more than the amount reported. The variances identified during validation are listed in **Table 15**.

<b>Description</b>	<b>Amount</b>
Reported actual savings	\$ 920,413
Less:	
Inclusion of DOC – Mt. Pleasant	(2,506)
July 2006 data for DOC – Anamosa, previously included	(59)
Add:	
February 2006 data for DOC – Oakdale, previously excluded	8,783
Natural gas savings for DOC – Newton, previously excluded	601
Validated actual savings	<u>\$ 927,232</u>

**Table 16** compares the targeted savings included in the final ATK Contract amendment with the actual savings reported by A.T. Kearney for the Natural Gas sourcing category in the close-out report. We have validated the actual savings reported, as adjusted for the variances identified in **Table 15**. As illustrated by **Table 16**, the targeted savings included in the final ATK Contract amendment was exceeded.

<b>Savings</b>	<b>Amount</b>
Validated actual savings	\$ 927,232
Targeted savings	631,044
Difference	<u>\$ 296,188</u>
Percent of targeted savings	<u>146.9%</u>

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The actual savings of \$927,232 includes \$912,123 of commodity cost savings and \$15,109 of management fee savings. The commodity cost savings were calculated by comparing fiscal year 2006 natural gas usage at the historical price paid to fiscal year 2006 natural gas usage at Cornerstone Energy's prices for that time period. For those State agencies switching to Cornerstone Energy, the management fee to be paid was netted against any commodity cost savings achieved.

Given the marketplace for natural gas, vendors do not enter into contracts to supply natural gas at a fixed price per therm. The amendment entered into by DAS with Cornerstone Energy provides MPF services for the purpose of assisting buyers in managing price volatility and enabling buyers to purchase natural gas for a commodity price based upon a combination of fixed pricing, call options, monthly index pricing, daily index pricing and a discretionary pricing component. Because natural gas is a commodity for which the state has on-going purchases and market volatility makes it impractical to predict future price per therm, historical data is an appropriate basis upon which to make a comparison between rates paid by the State of Iowa and rates charged by Cornerstone Energy for fiscal year 2006. This comparison provides a reasonable basis for calculating actual savings obtained as a result of the MPF contract amendment.

The additional \$15,109 only applies to those State agencies previously using Cornerstone Energy and is a result of the reduction to the management fee from \$.07 per dekatherm to \$.03 per dekatherm. (A dekatherm is a unit of heating value equal to 1,000,000 Btu's or 10 therms.) The amount was calculated by multiplying the fiscal year 2006 usage for all State accounts served by Cornerstone Energy by the management fee reduction of \$.04 per dekatherm.

### **FLEET**

**Addressable Spend** – The final ATK Contract amendment includes addressable spend of \$13,480,000 for the Fleet sourcing category. However, only \$13,200,019 was reported by A.T. Kearney in the sourcing category close-out report, which is \$279,981 less than the amount included in the final ATK Contract amendment. This difference is primarily a result of the exclusion of certain law enforcement vehicles purchased under a Federal government contract which had more favorable terms. We have validated the \$13,200,019 addressable spend reported.

Addressable spend includes the model year 2006 vehicle purchases anticipated by DAS, DOT, ISU, UI and UNI. The amount was calculated using the unit price information from the model year 2006 vendor contracts and the estimated number of vehicles to be purchased summarized and submitted by the State agencies and Regents.

**Targeted Savings** – Responses from 11 dealers were evaluated under an electronic Request for Bid (eRFB) for the provision of fleet vehicles. After reviewing the eRFB responses, DAS entered into contracts with 7 dealers for the purchase of fleet vehicles. ISU, UI and UNI also purchase vehicles using these contracts. The 1-year contracts, effective November 18, 2005, allow for 1 additional renewal period. DAS entered into 3 additional contracts under a rebid of the proposal, which are also effective November 18, 2005. DOT entered into contracts with 5 dealers for the purchase of fleet vehicles. The 7-month contracts were effective December 1, 2005.

The Fleet sourcing category close-out report also included the results of a dealer satisfaction survey related to the overall bidding process for model year 2006 vehicles. Based on a sample of 4 dealers who responded to the survey, overall satisfaction scored 2.0 on a scale of 5.0, with 1.0 being "highly dissatisfied" and 5.0 being "highly satisfied". The dealers also rated the online submission system, use of bid sheets and training offered. Dealer ratings in

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these areas were 3.0, 3.3 and 2.5, respectively. Similar data had not been collected for the model year 2005 process.

A.T. Kearney reported actual savings of \$25,932 for the Fleet sourcing category in the close-out report. We have validated actual savings of \$0. **Table 17** compares the targeted savings included in the final ATK Contract amendment with the validated actual savings for the Fleet sourcing category. As illustrated by the **Table**, the targeted savings included in the final ATK Contract amendment was not met.

<b>Savings</b>	<b>Amount</b>
Validated actual savings	\$ 0
Targeted savings	943,600
Difference	(\$ 943,600)
Percent of targeted savings	0.0%

The actual savings of \$25,932 reported by A.T. Kearney were calculated by comparing the price increase from the 2005 to 2006 model year vehicles of \$104,609 to the price increase reported in the Black Book of \$130,541 for the same time period. (The Black Book is an industry guide containing new and used car and truck prices.) The \$104,609 price increase was calculated by comparing total spend for model year 2005 as summarized and submitted by the State agencies and Regents to the addressable spend. However, the comparison of the calculated price increase with the price increase reported in the Black Book is not consistent with the “Savings Calculation” definition included in **Appendix A**. In addition, this methodology is not consistent with the other sourcing categories, which do not include an inflationary factor in the calculation of actual savings. Therefore, we were unable to validate the actual savings reported.

We inquired about the actual savings reported in the Fleet sourcing category close-out report with representatives of DAS. According to DAS representatives, the actual savings for the Fleet sourcing category result from avoiding industry cost increases as illustrated by the comparison of the State’s model year 2006 prices to Black Book model year 2006 prices. While this is a valid comparison to demonstrate the State of Iowa is performing well when negotiating vehicle prices, it cannot be used to estimate actual savings for the Fleet sourcing category.

As stated previously, total spend for model year 2005 vehicles was compared to addressable spend. (Model year 2006 vehicles were “rolled back” to model year 2005 features, as possible. This comparison does provide an appropriate basis for determining actual savings. The calculation of actual savings should not include a further comparison to Black Book prices. Without consideration of the Black Book, the only remaining component presented in the Fleet sourcing category close-out report is the price increase of \$104,609 based on a comparison of model year 2005 prices to model year 2006 prices. Competitive prices had been negotiated for model year 2005 vehicles included in the State’s Fleet; therefore, additional savings were difficult to achieve while negotiating model year 2006 vehicle prices.

### **FOOD**

**Addressable Spend** – The final ATK Contract amendment includes addressable spend of \$7,200,000 for the Food sourcing category. However, only \$1,342,792 was reported by A.T. Kearney in the sourcing category close-out report, which is \$5,857,208 less than the amount included in the final ATK Contract amendment. Because a core list of items provided



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by a specific vendor were the only items included in the amount reported, it was less than the original amount. We have validated the \$1,342,792 addressable spend reported.

Addressable spend is comprised of a core list of 186 items identified as having savings potential. Of the 186 items, 176 were previously purchased from Reinhart Foodservice Inc. (Reinhart) while the remaining 10 were previously purchased from the Woodward Centralized Distribution Center (CDC). The addressable spend amount was calculated using the last price paid for each item multiplied by the quantity purchased during fiscal year 2006. For the 176 Reinhart items, both the last price paid and the fiscal year 2006 quantity were obtained from TRACS, a software system maintained by Reinhart. The information for the 10 CDC items was obtained from the Woodward Resource Center Business Office.

Initially, the last price paid for all items was at various dates during the period July 1, 2004 through October 18, 2006, depending on the most recent purchase of the item. However, for the 10 CDC items, the date of the last price paid was revised to November 27, 2006 because support for the CDC last price paid previously used by A. T. Kearney was not readily available when the amounts were validated. Last price paid was used for the addressable spend calculation because the State's previous contract with Reinhart did not specify a price per item. Previously, the State ordered from Reinhart's catalog and paid market price.

**Targeted Savings** – DAS elected to renegotiate the contract held with Reinhart rather than issuing RFPs. DAS entered into 6 separate contracts with Reinhart for the provision of food items, effective October 1, 2006 and extending through December 31, 2006, the expiration date included in the original contract held with Reinhart. All 6 contracts include a provision for 2 1-year renewal periods, as well as a fuel surcharge of \$0.01 per case for every \$0.10 per gallon fuel prices exceed \$2.20 per gallon. The 6 contracts are a result of grouping the State agencies covered by the contracts into regions.

The renegotiated contracts have 2 components, a core list and a non-core list. The core list is comprised of 186 food items for which specific prices were negotiated. The non-core items are available through Reinhart's catalog and may be purchased by State agencies. However, no specific price has been negotiated for these items. Standard market price will be paid for any non-core items purchased. Actual savings reported by A.T. Kearney were based on core list items only.

**Table 18** compares the targeted savings included in the final ATK Contract amendment with the actual savings reported by A.T. Kearney for the Food sourcing category in the close-out report. We have validated the actual savings reported. As illustrated by the **Table**, the targeted savings included in the final ATK Contract amendment was not met.

<b>Table 18</b>	
<b>Savings</b>	<b>Amount</b>
Validated actual savings	\$ 81,005
Targeted savings	216,000
Difference	(\$ 134,995)
Percent of targeted savings	37.5%

The actual savings of \$81,005 was calculated by comparing the addressable spend to the fiscal year 2006 quantities for the 186 core items at the newly negotiated prices. Savings may vary significantly depending on the actual quantities of core list items purchased from Reinhart under the agreement. In addition, although not included in the calculation of actual savings, there is no negotiated price for the non-core items. Spend in this area may fluctuate significantly depending on quantities purchased and market price changes.

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A.T. Kearney also included some concerns in the “Lessons Learned” section of the sourcing category close-out report. Specifically, they were concerned the State may have missed additional opportunities for savings by not requesting proposals from other manufacturers through the RFP process. During validation, we observed A.T. Kearney’s recommended strategy of issuing RFPs included in the sourcing category close-out report. It is unclear why the State chose not to follow their recommendation. In addition, A.T. Kearney was concerned with the duration of the renegotiated contracts. They felt it was unclear whether the State received the most competitive pricing from Reinhart given the short term of the contracts.

**BUILDING AND CONSTRUCTION**

As discussed in the “Strategic Sourcing Initiative” section of this report, the Building and Construction sourcing category was further broken down into the following sourcing subcategories:

- Roofing Design,
- Building Automation/Security/Fire and Safety (Building Automation),
- Master Architectural and Engineering (A&E),
- Woodward Resource Center (WRC) Wastewater Treatment Facility (WWTF) and
- Iowa Veteran’s Home (IVH) Dack Dayroom Expansion Design Services and Master Planning Services.

**Addressable Spend** – The final ATK Contract amendment includes addressable spend of \$5,038,738 for the Building and Construction sourcing category. A.T. Kearney reported addressable spend for each sourcing subcategory in individual close-out reports. The total combined addressable spend reported by A.T. Kearney is \$9,439,443, which is \$4,400,705 more than the amount included in the final ATK Contract amendment. The increase resulted from including different sourcing subcategories than initially identified. We have validated \$4,327,825 of the total combined addressable spend reported.

**Table 19** compares the addressable spend reported with the validated addressable spend for each sourcing subcategory. The calculation of addressable spend for each sourcing subcategory is discussed further in the following subsections of this report. As illustrated by the **Table**, the difference between the total combined addressable spend reported and the total combined validated addressable spend is certain sourcing subcategories with validated addressable spend of less than the amount reported.

**Table 19**

<b>Sourcing Subcategory</b>	<b>Reported Addressable Spend</b>	<b>Validated Addressable Spend</b>
Roofing Design	\$ 806,103	806,103
Building Automation	2,954,722	2,954,722
Master A&E	4,879,618	567,000
WRC WWTF	319,000	-
IVH	480,000	-
Total	\$ 9,439,443	4,327,825

**Targeted Savings** – DAS entered into contracts with several individual vendors for the provision of services under each Building and Construction sourcing subcategory. See the following subsections of this report for a discussion of the contracts and contract terms for each individual sourcing subcategory.

A.T. Kearney reported actual savings for each sourcing subcategory in individual close-out reports. The total combined actual savings reported by A.T. Kearney is \$947,799. We have validated total combined actual savings of \$485,071. **Table 20** compares the actual savings reported with the validated actual savings for each sourcing subcategory. The calculation of actual savings for each sourcing subcategory is discussed further in the following subsections of this report. As illustrated by the **Table**, the primary reason for the difference between the total combined actual savings reported and the validated total combined actual savings is certain sourcing subcategories with validated actual savings of \$0.

**Table 20** also compares the targeted savings included in the final ATK Contract amendment with the total combined validated actual savings reported by A.T. Kearney for the Building and Construction sourcing category in the close-out reports. The final ATK Contract amendment does not specify a targeted savings for each sourcing subcategory. As illustrated by the **Table**, the targeted savings included in the final ATK Contract amendment was exceeded.

**Table 20**

<b>Sourcing Subcategories</b>	<b>Actual Savings</b>	
	<b>Reported by A.T. Kearney</b>	<b>Validated</b>
Roofing Design	\$ 268,367	268,367
Building Automation	213,758	216,704
Master A&E	362,424	-
WRC WWTF	77,500	-
IVH	25,750	-
Total combined actual savings	\$ 947,799	485,071
Targeted savings		251,937
Difference		\$ 233,134
Percent of targeted savings		192.5%

• **Roofing Design**

**Addressable Spend** – The A.T. Kearney close-out report for the Roofing Design sourcing subcategory includes addressable spend of \$859,384. We have validated \$806,103 of the addressable spend reported.

A.T. Kearney estimated addressable spend by analyzing design costs from 4 roofing projects completed during fiscal year 2004 obtained from DAS-GSE Financial Data Spreadsheets. The average portion of costs attributable to design for the 4 projects was calculated as 9.8%. A total of \$8,769,228 is budgeted for 23 fiscal year 2006 proposed roofing projects from the Vertical Infrastructure Advisory Committee (VIAC) project list. A.T. Kearney also obtained confirmation from each State agency of their projects on the VIAC project list. **Table 21** summarizes the 23 roofing projects by State agency.

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**Table 21**

<b>State Agency</b>	<b>Number of Projects</b>	<b>Budgeted Amount</b>
Corrections	8	\$ 6,574,173
Human Services	10	1,634,275
DAS	3	485,596
Public Safety	2	75,184
Total	23	\$ 8,769,228

The total budgeted amount of \$8,769,228 multiplied by 9.8% results in addressable spend of \$859,384, which is included in the Roofing Design sourcing subcategory close-out report. However, this amount is not the amount used by A.T. Kearney for the savings calculation. Addressable spend was further defined as the portion of design costs attributable to labor. To estimate this amount, A.T. Kearney analyzed invoices from 6 roofing projects completed during fiscal years 2003 and 2004. The average portion of design costs attributable to labor for the 6 projects was calculated as 93.8%. Addressable spend used for the savings calculations was \$859,384 multiplied by 93.8%, or \$806,103. We have validated addressable spend of \$806,103.

**Targeted Savings** – Responses from 4 vendors were evaluated under an RFP for the provision of roofing design services. After reviewing the RFP responses, DAS entered into contracts with all 4 vendors for the provision of roofing design services. Of the 4 contracts awarded, 2 vendors are to be used as primary vendors and 2 as emergency vendors. Eastern Iowa is to be served by 1 primary vendor and the other primary vendor is to serve western Iowa. The 1-year contracts, effective August 1, 2006, allow for 5 1-year renewal periods.

A.T. Kearney reported actual savings of \$268,367 for the Roofing Design sourcing subcategory in the close-out report. We have validated the actual savings reported. The actual savings of \$268,367 includes \$224,789 from hourly rate savings and \$43,578 from a 9% rebate from 1 vendor. Hourly rate savings were calculated by applying the savings percentages from the 2 primary vendors to the addressable spend for each of the 23 proposed roofing projects for fiscal year 2006. The savings percentages were calculated by comparing the average hourly rates for the 4 design firms from the 2004 contract by job classification, as adjusted for inflation, to the hourly rates for the 4 design firms from the 2006 contract by job classification. **Table 22** summarizes the savings percentages for all 4 vendors.

**Table 22**

<b>Vendor</b>	<b>Savings Percentage</b>
Primary Vendors:	
Genesis Architectural	32.00%
Keffer/Overton Associates Inc*	27.00
Emergency Vendors:	
Howard R Green Co	(0.35)
Shive-Hattery Inc	9.00

\* Offered the 9% rebate in addition to the hourly rate savings.

As an example, actual savings for a project to be completed by Keffer/Overton Associates Inc. was calculated as illustrated in **Table 23**.

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**Table 23**

<b>Description</b>	<b>Savings Calculation</b>
Amount budgeted for project	\$ 632,500
x Design cost percentage	9.8%
	<hr/> 61,985
x Labor cost percentage	93.8%
Addressable spend (rounded)	58,142
x Keffer/Overton savings percentage	27.0%
Actual savings for project (rounded)	<hr/> <hr/> \$ 15,698

Significant cost savings are achieved by using the primary vendors only. As illustrated in **Table 21**, the emergency vendors have significantly lower savings percentages than the primary vendors. However, the distinction between the primary and the emergency vendors is not readily apparent on the DAS website where the contracts are posted. Savings may vary depending on the vendor selected by a State agency for a specific project, the fiscal year in which the project is completed and the actual cost of the project in comparison to the amount budgeted.

The \$43,578 of rebate savings from Keffer/Overton Associates Inc was calculated by applying the rebate percentage of 9% to the cost of the project after taking hourly rate savings into consideration. Using the example from **Table 23**, the rebate for this project would be \$42,444 multiplied by 9%, or \$3,820. (\$42,444 is the difference between the addressable spend and the actual savings.)

• **Building Automation**

**Addressable Spend** – The A.T. Kearney close-out report for the Building Automation sourcing subcategory includes addressable spend of \$2,954,722. We have validated the \$2,954,722 addressable spend reported.

Addressable spend was calculated by extracting the fiscal year 2006 spend data for the 3 national vendors with existing contracts from the State’s accounting system. **Table 24** summarizes the addressable spend for the 3 national vendors, which comprise 83% of the State’s spend for building automation systems, parts and services.

**Table 24**

<b>Vendor</b>	<b>Fiscal Year 2006 Spend Data</b>
Siemens Building Technologies	\$2,522,510
SimplexGrinnell	294,642
Johnson Controls, Inc.	137,570
Total	<hr/> <hr/> \$2,954,722

**Targeted Savings** – Responses from 7 vendors were evaluated under an RFP for the provision of building automation systems. After reviewing the RFP responses, DAS entered into contracts with all 7 vendors for the provision of building automation systems, parts and services. Of the 7 contracts awarded, 3 were for the national vendors which previously held contracts with the State and 4 were to local vendors which did not have a previous contract

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with the State. The 1-year contracts, effective February 16, 2007, allow for 5 1-year renewal periods.

A.T. Kearney reported actual savings of \$213,758 for the Building Automation sourcing subcategory in the close-out report. We have validated actual savings of \$216,704, which is \$2,946 more than the amount reported. This difference is due to data entry errors identified during validation. Because addressable spend only included the 3 national vendors, the calculation of actual savings also only included the 3 national vendors.

The validated actual savings of \$216,704 includes \$204,786 of price savings and \$11,918 from a .5% rebate from 1 vendor. Price savings includes price discounts, prompt payment discounts and freight discounts and was calculated using 3 steps, as follows:

- (1) A.T. Kearney first calculated the increase in discount percentages from the existing contracts to the newly negotiated contracts in each area of building automation (i.e., energy, security, etc.). For example, Siemens Building Technologies had previously given a 62.5% discount for energy. The newly negotiated contract included a 68% discount. Therefore, the savings percentage for Siemens Building Technologies for energy was 5.5%.
- (2) Once the savings percentages had been identified for each vendor, A.T. Kearney calculated the weighted average savings percentage for each vendor. For example, Siemens Building Technologies comprises 85% of addressable spend. Therefore, the weighted average savings percentage for that vendor is 5.5% multiplied by 85%, or 4.7%.
- (3) Finally, the overall savings percentage was calculated by summing the individual savings percentages of each vendor. This sum of 6.83% was then applied to the addressable spend to calculate actual savings of \$204,786.

The rebate savings of \$11,918 was calculated by applying the rebate percentage of .5% to the addressable spend less the price savings achieved. Savings may vary depending on the vendor selected by a State agency for a specific project and the actual amount spent on building automation systems, parts and services.

- **Master A&E**

**Addressable Spend** – The A.T. Kearney close-out report for the Master A&E sourcing subcategory includes addressable spend of \$4,879,618. This amount includes project costs and DAS process costs. However, A.T. Kearney only used addressable spend of \$871,672 in the calculation of actual savings. We do not agree with the methodology used to arrive at the process cost portion of addressable spend. Therefore, we have validated \$567,000 of the addressable spend used for the calculation of actual savings.

Addressable spend was calculated based on the major maintenance projects included on the VIAC project list for fiscal year 2006. The total amount budgeted for these projects was \$50,832,736. Because the Master A&E sourcing subcategory was to focus on the design costs, the \$50,832,736 was multiplied by 9%, the percentage attributable to design costs as calculated in the Roofing Design sourcing subcategory, to arrive at \$4,574,946. To this amount, A.T. Kearney added \$304,672 to represent DAS process costs. The sum of these 2 amounts equals the \$4,879,618 addressable spend reported.

The projects within the addressable spend were classified into 4 design disciplines: Architectural and Design Services, Mechanical Electrical, Building Envelope and Civil and Structural Design Services. Roofing projects were removed because they had been included in the Roofing Design sourcing subcategory. **Table 25** summarizes the addressable spend by design discipline.

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**Table 25**

<b>Design Discipline</b>	<b>Budgeted Amount</b>	<b>Design Costs (9%)</b>
Architectural and Design Services	\$ 22,879,457	2,059,151
Mechanical Electrical	10,197,780	917,800
Building Envelope	6,314,803	568,332
Civil and Structural Design Services	6,264,950	563,846
Multi-Discipline Projects	5,175,746	465,817
Total	\$ 50,832,736	4,574,946

Because A.T. Kearney was able to obtain only prior project costs for the Building Envelope design discipline, it calculated actual savings for only that design discipline. A.T. Kearney rounded the budgeted amount for the Building Envelope design discipline to \$6.31 million, which made the portion attributable to design costs \$567,000. This amount added to the \$304,672 representing DAS process costs equals the \$871,672 used in the calculation of actual savings. We were unable to obtain sufficient supporting documentation for the \$304,672 representing DAS process costs. In addition, the inclusion of process costs is not consistent with the “Savings Calculation” definition included in **Appendix A**. Therefore, addressable spend was validated at \$567,000.

**Targeted Savings** – Responses from 17 vendors were evaluated under an RFP for the provision of design services. After reviewing the RFP responses, DAS entered into contracts with 10 of the 17 vendors for the provision of design services within the 4 Master A&E design disciplines. The 1-year contracts, effective January 1, 2007, allow for 4 1-year renewal periods.

A.T. Kearney reported actual savings of \$362,424 for the Master A&E sourcing subcategory in the close-out report. We have validated actual savings of \$0. The actual savings of \$362,424 reported by A.T. Kearney includes \$157,247 of design services cost savings and \$205,177 of process improvement savings.

The design services cost savings of \$157,247 were calculated as follows:

- High range and low range cost estimates were obtained from vendors under an RFP for each of the 4 design disciplines. However, because prior project costs were only available for the Building Envelope design discipline, A.T. Kearney only calculated the average high range costs from that design discipline for those vendors awarded a contract. The average high range costs calculated at \$27,461.
- Design services costs in the amount of \$28,450 for a construction project completed in 1999 were obtained from DAS, which were adjusted to \$38,000 for inflation.
- The \$27,461 calculated average high range cost was then subtracted from the \$38,000 inflation-adjusted design services costs. This difference was divided by the \$38,000 to calculate a savings percentage of 27.73%.
- The 27.73% was then applied to the design services portion of certain projects for which funds have been appropriated to arrive at the savings amount of \$157,247.

The calculations utilized to determine the \$157,247 are not consistent with the “Savings Calculation” definition included in **Appendix A**. There were no previous contracts to allow a comparison between existing contract price and newly negotiated contract price. In addition, we were unable to determine whether the 1999 completed project represented an “average” project because sufficient supporting documentation was not available. Also, according to

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## A Review of the Strategic Sourcing Initiative

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discussions with representatives of DAS and A.T. Kearney, the 1999 project was the only project completed by the State within the Building Envelope design discipline during the past 8 years. However, the savings amount was calculated using 12 appropriated projects planned for the next fiscal year. The 12 projects are included on the VIAC project list. Potential savings would vary significantly depending on when the projects are actually completed and how the actual costs compare to the amount appropriated.

The process improvement savings of \$205,177 was calculated by comparing estimated prior DAS project manager costs for RFP development to targeted DAS project manager costs for RFP development. A.T. Kearney used an estimated number of hours for both the prior costs and targeted costs multiplied by the approved billing rate for project managers to arrive at a savings amount of \$190,177. However, no supporting documentation could be provided for the number of hours used for either the prior or targeted costs. In addition, A.T. Kearney calculated DAS process efficiency savings of \$15,000. Within the close-out report, however, A.T. Kearney acknowledged the process efficiency savings may not be viewed as savings. These comparisons and calculations are also not consistent with the "Savings Calculation" definition included in **Appendix A**. In addition, this methodology is not consistent with the other sourcing categories, which do not include process improvements in their savings calculation. Therefore, we were unable to validate the actual savings reported.

- **WRC WWTF**

**Addressable Spend** – The A.T. Kearney close-out report for the WRC WWTF sourcing subcategory includes addressable spend of \$319,000. However, we do not agree with the methodology used to arrive at addressable spend. Therefore, we have validated addressable spend of \$0.

Addressable spend was based on the initial assessment of the project completed by Howard R. Green Co. As part of this assessment, they estimated design and construction services would be 15% of other project costs. However, there was no other supporting documentation available for this estimate.

**Targeted Savings** – Responses from 4 vendors were evaluated under an RFP, which was based on the initial assessment prepared by Howard R. Green Co. After reviewing the RFP responses, DAS entered into a contract with Howard R. Green Co. for completion of the project. The contract was effective August 16, 2006, with a project starting date of December 5, 2006.

A.T. Kearney reported actual savings of \$77,500 for the WRC WWTF sourcing subcategory in the close-out report. We have validated actual savings of \$0. The actual savings of \$77,500 were calculated by comparing addressable spend to Howard R. Green Co.'s winning bid under the RFP of \$241,500. However, this comparison is not consistent with the "Savings Calculation" definition included in **Appendix A**. In addition, this methodology is not consistent with the other sourcing categories, which are for the provision of a type of commodity or service and not a specific project. Therefore, we were unable to validate the actual savings reported.

- **IVH Dack Dayroom Expansion Design Services and Master Planning Services**

**Addressable Spend** – The A.T. Kearney close-out report for the IVH sourcing subcategory includes addressable spend of \$480,000. However, we were not provided sufficient supporting documentation for this amount. Therefore, we have validated addressable spend of \$0.



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Addressable spend has 2 components, the Dack Dayroom Expansion Design Services and the Master Planning Services. Addressable spend for the Dack Dayroom Expansion Design Services was estimated at \$230,000. This was calculated by multiplying the budgeted amount of \$2,300,000 from the VIAC project list by 10%. However, according to a representative of IVH we spoke with, both the \$2,300,000 project budget and the 10% attributable to design costs were best estimates. Sufficient supporting documentation was not provided for either amount.

Addressable spend for the Master Planning Services was estimated at \$250,000. This was an estimate provided by a DAS-GSE employee within Design and Construction. However, in an A.T. Kearney e-mail requesting confirmation of the amount, the employee responded it was only a guess and “not based on much of anything of significance.” Sufficient supporting documentation was not provided for the estimate.

**Targeted Savings** – Responses from 6 vendors were evaluated under an RFP for the Dack Dayroom Expansion Design Services. After reviewing the RFP responses, DAS entered into a contract with TSP, Inc. for the provision of design services on the Dack Dayroom expansion at IVH. Responses from 4 vendors were evaluated under an RFP for Master Planning Services. After reviewing the RFP responses, DAS entered into a contract with The Schemmer Associates, Inc. for the provision of facility assessment and master planning services for IVH.

A.T. Kearney reported actual savings of \$25,750 for the IVH sourcing subcategory in the close-out report. We have validated actual savings of \$0. The actual savings of \$25,750 were calculated by comparing the addressable spend for each component to the winning bid under the respective RFPs. However, this comparison is not consistent with the “Savings Calculation” definition included in **Appendix A**. In addition, this methodology is not consistent with the other sourcing categories, which are for the provision of a type of commodity or service and not a specific project. Therefore, we were unable to validate the actual savings reported.

**Table 26** summarizes the calculation of actual savings for both components. As illustrated by the **Table**, the winning bid for the Dack Dayroom Expansion Design Services exceeded addressable spend for that component. Both contracts were awarded to the second highest bidder of the vendors evaluated under the RFP. According to the sourcing subcategory close-out report prepared by A.T. Kearney, had the lowest bidder been awarded the contract, actual savings for the 2 components would have been \$167,250.

<b>Description</b>	<b>Addressable Spend</b>	<b>Winning Bid</b>	<b>Actual Savings</b>
Dack Dayroom Expansion Design Services	\$ 230,000	261,750	(31,750)
Master Planning Services	250,000	192,500	57,500
Total	\$ 480,000	454,250	25,750

**MAINTENANCE SUPPLIES**

As discussed in the “Strategic Sourcing Initiative” section of this report, the Maintenance Supplies sourcing category was further broken down into the following sourcing subcategories:

- Maintenance, Repair and Operations (MRO) Supplies and
- Sanitary Paper.

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**Addressable Spend** – The final ATK Contract amendment includes addressable spend of \$4,914,607 for the Maintenance Supplies sourcing category. A.T. Kearney reported addressable spend for each sourcing subcategory in individual close-out reports. The total combined addressable spend reported by A.T. Kearney is \$1,161,005, which is \$3,753,602 less than the amount included in the final ATK Contract amendment. The reduction occurred because Regents did not participate and sourcing efforts were limited to a specific vendor. We have validated \$1,041,119 of the total combined addressable spend reported.

**Table 27** compares the addressable spend reported with the validated addressable spend for each sourcing subcategory. The calculation of addressable spend for each sourcing subcategory is discussed further in the following subsections of this report. The difference between the total combined addressable spend reported and the total combined validated addressable spend is Regents’ spend for MRO Supplies which should not have been included and pricing and quantity errors within the calculations for Sanitary Paper.

**Table 27**

<b>Sourcing Subcategory</b>	<b>Reported Addressable Spend</b>	<b>Validated Addressable Spend</b>
MRO Supplies	\$ 465,067	346,644
Sanitary Paper	695,938	694,475
Total	\$ 1,161,005	1,041,119

**Targeted Savings** – DAS entered into contracts with 2 individual vendors for the provision of services under each Maintenance Supplies sourcing subcategory. See the following subsections of this report for a discussion of the contracts and contract terms for each individual sourcing subcategory.

A.T. Kearney reported actual savings for each sourcing subcategory in individual close-out reports. The total combined actual savings reported by A.T. Kearney is \$207,485. We have validated total combined actual savings of \$173,915. **Table 28** compares the actual savings reported with the validated actual savings for each sourcing subcategory. The calculation of actual savings for each sourcing subcategory is discussed further in the following subsections of this report. The reasons for the difference between the total combined actual savings reported and the validated total combined actual savings include Regents’ actual savings for MRO Supplies which should not have been included, Less than Truckload (LTL) surcharges for Sanitary Paper which should not have been included and pricing and quantity errors.

**Table 28** also compares the targeted savings included in the final ATK Contract amendment with the total combined validated actual savings reported by A.T. Kearney for the Maintenance Supplies sourcing category in the close-out reports. The final ATK Contract amendment does not specify a targeted savings for each sourcing subcategory. As illustrated by the **Table**, the targeted savings included in the final ATK Contract amendment was not met.

**Table 28**

<b>Sourcing Subcategories</b>	<b>Actual Savings</b>	
	<b>Reported by A.T. Kearney</b>	<b>Validated</b>
MRO Supplies	\$ 76,166	47,704
Sanitary Paper	131,319	126,211
Total combined actual savings	\$ 207,485	173,915
Targeted savings		294,876
Difference		\$ (120,961)
Percent of targeted savings		59.0%

• **MRO Supplies**

**Addressable Spend** – The A.T. Kearney close-out report for the MRO Supplies sourcing subcategory includes addressable spend of \$465,067. We have validated addressable spend of \$346,644, which is \$118,423 less than the amount reported. **Table 29** includes the variances identified during validation.

**Table 29**

<b>Description</b>	<b>Amount</b>
Reported addressable spend	\$ 465,067
Less:	
Regents' addressable spend*	159,125
Add:	
Net effect of pricing and quantity errors	40,702
Validated addressable spend	\$ 346,644

\* Regents did not participate in the MRO Supplies sourcing subcategory; therefore, the associated addressable spend should not be included.

Addressable spend was based on the prices included in the Western States Contracting Alliance (WSCA) contract the State held with W.W. Grainger, Inc. Purchase history was obtained from W.W. Grainger, Inc. detailing the quantities purchased and the price paid by the State for 331 specific MRO Supplies items, consisting of electrical, industrial, janitorial, plumbing and safety supplies.

**Targeted Savings** – Responses from 3 vendors were evaluated under an RFP for the provision of MRO supplies. After reviewing the RFP responses, DAS elected to renegotiate the WSCA contract held with W.W. Grainger, Inc. DAS entered into a contract addendum with W.W. Grainger, Inc., effective February 21, 2007. The contract addendum included special pricing on 331 selected MRO Supplies items provided the State achieved minimum purchases of \$100,761 between March 1, 2007 and November 30, 2007 (the termination date of the original contract). If the minimum purchase amount is achieved, W.W. Grainger agreed to continue provision of discounted prices through November 30, 2008.

**A Review of the Strategic Sourcing Initiative**

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A.T. Kearney reported actual savings of \$76,166 for the MRO Supplies sourcing subcategory in the close-out report. We have validated actual savings of \$47,704, which is \$28,462 less than the amount reported. The variances identified during validation are included in **Table 30**.

**Table 30**

<b>Description</b>	<b>Amount</b>
Reported actual savings	\$ 76,166
Less:	
Net effect of pricing and quantity errors	2,221
Regents' actual savings *	26,241
Validated actual savings	<u>\$ 47,704</u>

\* Regents' did not participate in the MRO Supplies sourcing subcategory; therefore, the associated actual savings should not be included.

The validated actual savings of \$47,704 is based on price savings achieved under the renegotiated contract with W.W. Grainger, Inc. The amount was calculated by comparing addressable spend to the same 331 MRO Supplies items at the newly negotiated prices. Savings may vary depending on the actual quantities purchased by State agencies.

• **Sanitary Paper**

**Addressable Spend** – The A.T. Kearney close-out report for the Sanitary Paper sourcing subcategory includes addressable spend of \$695,938. We have validated addressable spend of \$694,475, which is \$1,463 less than the amount reported. **Table 31** includes the variances identified during validation.

**Table 31**

<b>Description</b>	<b>Amount</b>
Reported addressable spend	\$ 695,938
Less:	
Net effect of pricing and calculation errors	1,463
Validated addressable spend	<u>\$ 694,475</u>

Addressable spend was calculated for 7 specific Sanitary Paper items using an estimated annual usage (in cases) and the prices included in the contract the State previously held for sanitary paper products. The category sourcing team, in conjunction with A.T. Kearney, agreed to the number of cases to be used for each of the 7 specific items. They based their estimate on 2 sources of data. A.T. Kearney obtained fiscal year 2006 usage data from the applicable State agencies. They also obtained a monthly number of cases from the Woodward CDC (multiplied by 12 for annual usage). **Table 32** summarizes the estimated number of cases used for addressable spend, the Woodward CDC usage data and the fiscal year 2006 usage data from the State agencies by product type. The number of cases used for addressable spend appears reasonable.

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**Table 32**

<b>Description</b>	<b>Estimate Used for Addressable Spend</b>	<b>Woodward CDC Usage Data</b>	<b>State Agency Usage Data</b>
Single Ply Toilet Tissue	9,800	9,000	9,461
Single Fold Towels	10,100	10,320	9,631
Tall Napkins	3,200	3,240	4,024
Facial Tissue	1,300	1,416	1,436
Multi Fold Towels	800	0	0
Two Ply Toilet Tissue	400	300	347
Angel Soft Facial Tissue	480	480	480
Total Cases	26,080	24,756	25,379

**Targeted Savings** – Responses from 4 vendors were evaluated under a sealed bid auction held on November 20, 2006. After reviewing the sealed bid auction results, DAS entered into a contract with Sink Paper Company for the provision of sanitary paper products. The 1-year contract, effective December 1, 2006, does not allow for additional renewal periods.

A.T. Kearney reported actual savings of \$131,319 for the Sanitary Paper sourcing subcategory in the close-out report. We have validated actual savings of \$126,211, which is \$5,108 less than the amount reported. The variances identified during validation are included in **Table 33**.

**Table 33**

<b>Description</b>	<b>Amount</b>
Reported actual savings	\$ 131,319
Add:	
Net effect of pricing and calculation errors	2,046
Less:	
LTL surcharge*	7,154
Validated actual savings	<u>\$ 126,211</u>

\* Our expectation would be the State would incur the LTL surcharge; therefore, the calculation of actual savings should include these costs.

The validated actual savings of \$126,211 is based on price savings achieved under the newly negotiated contract with Sink Paper Company net of the \$7,154 of LTL surcharges. The amount was calculated by comparing addressable spend to the same 7 Sanitary Paper items at the newly negotiated prices. Savings may vary depending on the actual quantities purchased by State agencies.

**PRINT AND PROMOTION**

**Addressable Spend** – The third ATK Contract amendment, effective August 11, 2006, includes addressable spend of \$2,928,143 for the Print and Promotion sourcing category. During our fieldwork in August 2006, the third ATK Contract amendment was the most recent. However, by this time, DAS had elected not to pursue this sourcing category; therefore, there is neither a reported addressable spend or validated addressable spend.

**Targeted Savings** – The third ATK Contract amendment includes targeted savings of \$292,814 for the Print and Promotion sourcing category. During our fieldwork in August 2006, the

## **A Review of the Strategic Sourcing Initiative**

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third ATK Contract amendment was the most recent. However, by this time, DAS had elected not to pursue this sourcing category; therefore, no actual savings have been reported or validated.

**Event Subsequent to Completion of Audit Fieldwork** – The final ATK Contract amendment was effective on May 1, 2007. This amendment eliminated the Print and Promotion sourcing category. It is not readily apparent why DAS found it in the best interest of the State to enter into this final ATK Contract amendment which enabled A.T. Kearney to be paid the remaining performance-based compensation of \$383,000.

The following information was available regarding changes made to the addressable spend and targeted savings for the Print and Promotion sourcing category.

- On the July 25, 2006 Milestone Tracking Report prepared by representatives of A.T. Kearney and provided to DAS, a notation was made stating “7/27/06: DHS has decided to extend current contract, effectively ending the sourcing of the Print category.”
- On August 11, 2006, the third ATK Contract amendment became effective. The amount of addressable spend was reduced from \$19,795,990 to \$2,928,413 and targeted savings was reduced from \$1,748,415 to \$292,814 for the Print and Promotion sourcing category.
- On the August 16, 2006 Milestone Tracking Report, a notation was made stating, in part, “8/09/06: Strategic sourcing on this category will not continue” for the Print and Promotion sourcing category.

## **ITEMS FOR FURTHER CONSIDERATION**

As a result of our review, we identified the following items for further consideration by DAS to help ensure the Strategic Sourcing Initiative is as cost effective and efficient as possible.

### **Future Review**

As previously stated, actual savings identified as defined in the ATK Contract is an estimated savings amount and does not represent realized savings. Because the actual savings validated in this report is an estimated amount which could potentially be achieved if certain assumptions are met, consideration should be given to validation or review of the realized savings achieved by the end of fiscal year 2007 or 2008. The fiscal year to be reviewed would depend on the effective date of the contracts implemented for each sourcing category. This validation or review would use actual purchase information rather than projected information.

Other items for consideration are:

- It is not mandatory State agencies purchase from the contracts established as part of the Strategic Sourcing Initiative. The opportunity for “off contract” purchasing may reduce the actual savings realized. DAS should consider if changes should be made to purchasing requirements.
- In several categories, DAS awarded contracts to multiple vendors. The negotiated amounts in the contracts were not the same and, in some instances, varied significantly. As a result, State agencies may not be purchasing at the lowest cost possible, which may significantly impact the actual savings realized, depending on the mix of contractors used. DAS should consider if multiple contracts achieve the desired results.
- Total payments to A.T. Kearney of \$3,697,832.98 exceed both the first year targeted savings of \$3,404,699 and the validated actual first year savings of \$2,869,703. These payments represent only the cost of the ATK Contract. DAS also incurred administrative costs and will incur audit costs related to the Initiative. DAS should consider whether the Initiative is achieving the results intended and whether it is cost beneficial to continue the Initiative.

## **Schedules**



**Schedule 1**A Review of the Strategic Sourcing Initiative Administered  
by the Department of Administrative ServicesState Agency Payments to DAS by Fiscal Year  
For Fiscal Years 2005 through 2007

<b>State Agency</b>	<b>Fiscal Year</b>			<b>Total</b>
	<b>2005**</b>	<b>2006</b>	<b>2007^^</b>	
Administrative Services	\$ 17,500.00	940,588.34	754,998.10	1,713,086.44
Board of Regents	-	37,455.78	-	37,455.78
Commerce	-	10,225.60	-	10,225.60
Corrections	17,500.00	166,692.57	8,333.33	192,525.90
Economic Development	17,500.00	26,415.05	-	43,915.05
Education	-	14,709.87	-	14,709.87
Governor and Management	-	950.00	-	950.00
Human Services	17,500.00	128,410.60	-	145,910.60
Iowa Communications Network	-	2,231.28	-	2,231.28
Judicial	-	264,893.18	-	264,893.18
Lottery	-	5,072.11	-	5,072.11
Natural Resources	17,500.00	62,581.01	-	80,081.01
Public Defense	-	8,258.04	-	8,258.04
Public Health	17,500.00	30,676.81	-	48,176.81
Public Safety	17,500.00	32,127.93	-	49,627.93
Revenue	17,500.00	24,295.56	-	41,795.56
Transportation	17,500.00	493,249.83	12,398.00	523,147.83
Veterans Affairs	17,500.00	24,409.62	625.00	42,534.62
Workforce Development	-	24,751.15	-	24,751.15
Total	\$ 175,000.00	2,297,994.33	776,354.43	3,249,348.76

\*\* - Fiscal year 2005 payments were received by DAS prior to the Wave 1 fees scheduled in the MOUs.

^^ - Fiscal year 2007 revenues are as of February 28, 2007.

A Review of the Strategic Sourcing Initiative Administered  
by the Department of Administrative Services

Vehicle Dispatch Cash Balance Reduction by State Agency  
For the Fiscal Year Ended June 30, 2006

<b>State Agency</b>	<b>Amount</b>
Natural Resources	\$ 61,084.80
Public Safety	59,533.44
Human Services & Human Services Institutions	35,390.40
Corrections and Correctional Facilities	23,367.36
Administrative Services	22,009.92
Agriculture & Land Stewardship	12,507.84
Inspections & Appeals and Related Agencies	9,017.28
Public Health	6,302.40
Lottery	5,526.72
Commerce	5,526.72
Public Defense	5,429.76
Education and Related Agencies	4,654.08
Workforce Development	2,811.84
Veterans Affairs	2,133.12
Revenue	1,842.24
Law Enforcement Academy	1,551.36
Iowa Communications Network	1,357.44
Economic Development	1,260.48
Blind	1,163.52
Other	2,230.08
Total	<u>\$ 264,700.80</u>

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A Review of the Strategic Sourcing Initiative Administered  
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Staff

This review was conducted by:

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Jennifer Campbell, CPA, Senior Auditor II  
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Tamera S. Kusian, CPA  
Deputy Auditor of State

## **Appendices**

A Review of the Strategic Sourcing Initiative Administered  
by the Department of Administrative Services

Definition of Terms

**Actual Contracted Annualized Savings (Actual Savings)** – Accumulation of dollars as determined through “Savings Calculations” defined below, for each sourcing category within the addressable spend. [Actual savings have not yet been realized, but are projected by the category sourcing team by applying the savings calculation to the addressable spend (or a portion of addressable spend) for a given sourcing category.]

**Addressable Spend** – The proportion of expenditures by the State in a given category that DAS, IPAs [defined below] and other Participating Departments or Agencies agree are considered viable for a strategic sourcing initiative. Addressable spend is a subset of the total sourceable spend for a given category. [Sourceable spend is the total amount spent by the State in a given category.]

**Audit or Independent Audit** – An audit performed by someone other than the Contractor or DAS, paid for and procured by DAS, conducted to verify and validate the Contractor’s identified Participating Departments’ cost savings (actual savings) achieved due to the purposes of this contract and efforts of the Contractor.

**Category Sourcing Team** – Combination of Contractor and Agency resources that will work jointly to source each category. Category teams include individuals identified by the Participating Departments who are knowledgeable in the areas of procurement and use of the specific goods and services being sourced.

**Independent Purchasing Authority (IPA)** – Those State of Iowa entities or agencies that under Iowa Code have separate and distinct purchasing ability, including the ability to contract autonomously.

**Savings Calculation** – Each existing contract price amount minus the Strategic Sourcing initiative’s newly negotiated prices times the Spend Volume of fiscal year 2004, or the most recent procurement data where available, for each Participating Department and IPA for each Sourcing Category of Wave 1. Additional components of the total cost for a good or service (e.g. payment terms, delivery, maintenance, service, warranty, credits, etc.) that are considered material in nature will be included in calculating category savings.

**Sourcing Categories** – Those goods and services which have been identified by the parties to comprise the Wave 1.

**Spend Volume** – Total volume of spend by each Agency for a given category. All spend is not considered addressable during a strategic sourcing initiative.

**Target Contracted Annualized Savings (Targeted Savings)** – The amount of savings projected by the Contractor as the amount which can be saved for Wave 1. [This was specified as \$10,566,735 in the original ATK Contract but was subsequently amended to \$3,404,699. Both the original ATK Contract and the final ATK Contract amendment include a Table which specifies the targeted savings to be achieved for each sourcing category.]

**Wave or Strategic Sourcing Wave** – A combination of certain goods and services for focused efforts in sourcing to achieve savings to the State of Iowa when purchasing those goods and services.

**Work Streams** – Initiatives identified by DAS and the Contractor to be implemented to achieve savings on goods and services contracts.

**Validate** – To substantiate or verify the amount presented by the category sourcing team. Amounts were validated by assessing the methodology used in their calculation and reviewing the source data used to ensure it was accurate and complete. The amounts validated included addressable spend and savings calculations.