

An Evaluation:

Consolidation of Administrative Functions and the ACE Initiative

Department of Administration

September 2009

Report Highlights ■

The consolidation of human resources services has generally been successful.

Results of efforts to consolidate purchasing services have been mixed.

Surplus property sales have earned significantly less than anticipated.

Consolidation of IT support services has cost significantly more than anticipated and is behind schedule.

The Department of Administration (DOA) facilitates various administrative functions for state agencies, including managing human resources, purchasing goods and services, supporting computers and networks, and selling surplus state property. Beginning in March 2005, the Accountability, Consolidation, and Efficiency (ACE) Initiative attempted to improve these administrative functions.

The goals were ambitious, including saving up to \$200.0 million over a four-year period that ended in June 2009; reallocating agency staff positions and eliminating 76.85 full-time equivalent (FTE) positions statewide; lapsing \$35.5 million to the General Fund; and consolidating certain administrative functions within DOA. Given the magnitude of the proposed changes and uncertainty about whether anticipated savings were being achieved, the Legislature twice attempted to require DOA to report on the ACE Initiative's success. Both attempts were vetoed.

The ACE Initiative ended in June 2007, but many of its components continue. At the request of the Joint Legislative Audit Committee, we evaluated DOA's implementation of the ACE Initiative and its management of the ongoing components that are intended to save money and promote efficiencies, including efforts to:

- consolidate human resources functions for 7 small agencies;
- consolidate purchasing functions for 11 state agencies and execute new and improved purchasing contracts;
- identify and sell surplus state property; and
- consolidate computer server and network support functions.

Key Facts and Findings

Four contractors were paid \$15.2 million to help implement the ACE Initiative.

The ACE Initiative resulted in a net reduction of 76.85 FTE positions in state agencies.

State agencies and UW System spent \$237.7 million under 14 purchasing contracts over a three-year period.

The State saved \$18.9 million over a three-year period under 8 of the 14 purchasing contracts.

DOA sold only \$9.6 million in surplus property during the past two biennia.

Through June 2009, DOA spent \$113.5 million on three ACE Initiative-related IT projects.

Human Resources

Under the ACE Initiative, DOA was authorized an additional 8.0 FTE positions to provide certain human resources services to seven small state agencies. These agencies are generally satisfied with DOA's human resources staff and the services they provide. Charges for the services provided by DOA totaled \$1.9 million from fiscal year (FY) 2006-07 through FY 2008-09.

It was always anticipated that the seven agencies would continue to incur additional costs for human resources tasks not completed by DOA, and these costs totaled \$1.3 million during a recent two-year period.

2009 Wisconsin Act 28, the 2009-11 Biennial Budget Act, proposes further consolidation of human resources functions. Careful, ongoing legislative scrutiny of these consolidation efforts is warranted.

Purchasing

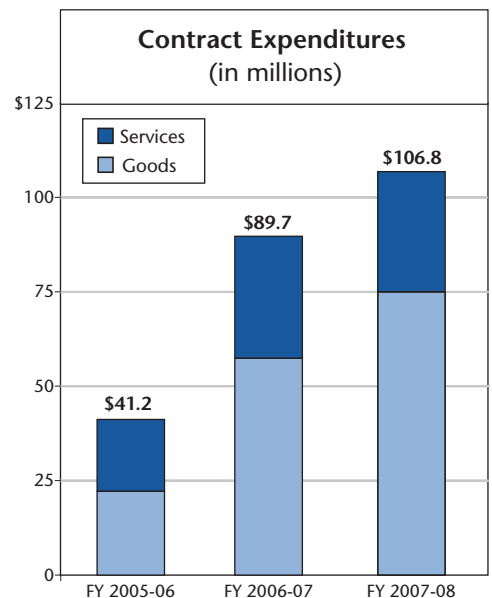
Under the ACE Initiative, DOA was authorized an additional 15.5 FTE positions to provide purchasing services for 11 state agencies. DOA's charges for those services totaled \$2.7 million from FY 2006-07 through FY 2008-09, and the affected agencies are generally satisfied with the services provided.

However, consolidation has not eliminated purchasing-related work in the 11 agencies, which reported

spending a total of \$1.6 million during a recent two-year period to perform purchasing tasks that DOA does not complete for them.

As of June 2008, more than 125 vendors were eligible to provide goods and services such as office supplies, printers, and information technology (IT) services to state agencies and the University of Wisconsin (UW) System under 14 purchasing contracts negotiated by DOA. By negotiating lower prices, reducing the variety of products available for purchase, and requiring state agencies and UW System to use the contracts in most circumstances, DOA expected significant savings.

Expenditures totaled \$106.8 million in FY 2007-08, the first full year all contracts were in effect. Available data indicate the State saved \$18.9 million over a three-year period for goods and services we were able to analyze.



More than 80.0 percent of the savings occurred under the IT services contract, but the available information indicates that the State paid \$396,100 more than allowed under three contracts. Moreover, purchases under the contracts represented only 2.7 percent of the total value of supplies purchased by executive branch agencies and UW System in FY 2007-08.

Management of purchasing contracts could be improved. DOA relies on vendors to report on the goods and services purchased, but this information is not always accurate and complete, and DOA does not consistently review it to ensure that vendors charge the prices allowed under the contracts. Further, some goods are available for purchase at different prices under multiple contracts.

Property Sales

The Legislature authorized DOA to sell \$36.0 million in surplus property during the 2005-07 biennium and \$40.0 million during the 2007-09 biennium, but only \$9.6 million was sold during that four-year period. 2009 Wisconsin Act 28 extended DOA's authority to identify and sell surplus property through the 2009-11 biennium.

DOA's contract with Equis, a Chicago real estate consulting firm that helped identify potential saleable properties, had a troubled history. In March 2009, a former Equis vice president was convicted

in federal court of bribery and other offenses related to the potential sale of DOA's Administration Building. In addition, concerns have been raised about the commissions that Equis was eligible to receive for property sales. DOA ended its contract with Equis in May 2007.

Information Technology

Under the ACE Initiative, DOA was authorized an additional 68.0 FTE positions to provide IT support services to 20 state agencies and to consolidate and maintain the servers that manage software. Through June 2009, consolidation had been completed in only 7 of the agencies, although all 20 lost IT staff positions and continue to incur server and network support costs, which totaled \$31.6 million during a recent two-year period.

DOA also managed two other large ACE Initiative-related IT projects:

- converting all executive branch agencies' e-mail systems to a common system; and
- creating the Integrated Business Information System (IBIS), which is designed to replace approximately 100 types of software used by state agencies for accounting, budgeting, human resources, payroll, and purchasing functions.

Through June 2009, DOA spent \$113.5 million on server consolidation and the other two IT projects.

The costs of all three projects significantly exceed the original estimates for implementation, and only e-mail consolidation has been completed.

In April 2008, DOA suspended IBIS. Continued legislative scrutiny of IBIS is warranted because the project's appropriation had a negative balance of \$8.4 million as of June 2009. In addition, the State is obligated to repay, through FY 2012-13, an additional \$4.2 million incurred under the master lease program, which finances IT project costs.

For Future Consideration

The ACE Initiative has had mixed results. Some consolidation components have been effectively implemented and have resulted in significant cost savings. Others have been less successful, and calculations of savings and efficiencies have not always taken into account the \$15.2 million paid to four contractors that assisted DOA in their creation and implementation.

Consideration of the successes and challenges presented by the ACE Initiative and its ongoing components may be useful as the Legislature assesses other efforts to consolidate state operations. Continued legislative attention to these issues is warranted, and additional oversight could increase the likelihood of success.

Recommendations

Our report includes recommendations for DOA to report to the Joint Legislative Audit Committee by June 30, 2010, on:

- ☑ the amounts it is charging seven state agencies in FY 2009-10 for human resources services and its preliminary plans for consolidating the human resources functions of additional agencies (p. 20);
 - ☑ surplus state property sold during FY 2009-10 (p. 40);
 - ☑ the status of efforts to consolidate server and network support functions (p. 44); and
 - ☑ the status of IBIS and the current deficit in the project's program revenue appropriation (p. 51).
- We also include recommendations for DOA to:
- ☑ execute division-of-labor agreements with each state agency for which it provides purchasing services (p. 22);
 - ☑ review payments to vendors under the services contracts and recover any overcharges (p. 30);
 - ☑ improve its management of purchasing contracts by implementing processes for verifying the accuracy of information in vendors' reports and assessing financial penalties when amounts charged exceed those stipulated in contracts (p. 33); and
 - ☑ establish policies for approving or denying requests for waivers from provisions of the purchasing contracts (p. 36).

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Additional Information

For a copy of report 09-9, which includes a response from the Department of Administration, call (608) 266-2818 or visit our Web site:



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