

An Evaluation

Consolidation of Administrative Functions and the ACE Initiative

Department of Administration

2009-2010 Joint Legislative Audit Committee Members

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Response

From the Department of Administration



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State Auditor

September 17, 2009

Senator Kathleen Vinehout and
Representative Peter Barca, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Vinehout and Representative Barca:

We have completed an evaluation of the consolidation of administrative functions within the Department of Administration (DOA) and the Accountability, Consolidation, and Efficiency (ACE) Initiative, as requested by the Joint Legislative Audit Committee. In 2005, DOA implemented the ACE Initiative to improve management of purchasing, human resources, and information technology (IT) functions. Although the ACE Initiative ended in June 2007, many of its components remain in effect.

Currently, DOA provides human resources services to 7 other state agencies, purchasing services to 11 other agencies, and computer server and network support services to 7 other agencies. However, the agencies continue to incur costs to complete certain administrative tasks that DOA does not perform.

DOA negotiated 14 new contracts for some of the goods and services commonly purchased by state agencies and the University of Wisconsin System. From fiscal year (FY) 2005-06 through FY 2007-08, purchases under the contracts totaled \$237.7 million. We estimate savings of \$18.9 million from purchases of goods and services for which data were available. However, vendors were potentially paid \$396,100 more than allowed under three of the contracts.

The costs of three ACE Initiative-related IT projects totaled \$113.5 million through June 2009 and have significantly exceeded original estimates. One project is completed, work on another has been suspended, and the third is taking longer than expected to complete.

Any savings and efficiencies achieved through consolidation have been offset by payments of \$15.2 million to four contractors that helped to create and implement the ACE Initiative. Continued legislative monitoring of ongoing consolidation efforts is warranted.

We appreciate the courtesy and cooperation extended to us by DOA and other state agencies. A response from DOA follows the appendices.

Respectfully submitted,

Janice Mueller
State Auditor

JM/DS/ss

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.

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

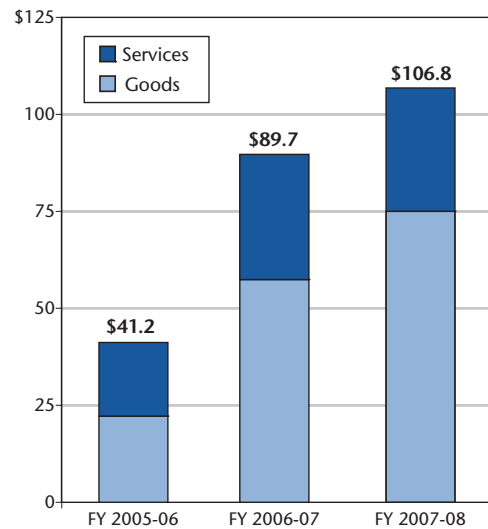
Under the ACE Initiative, DOA was authorized an additional 15.5 FTE positions to provide purchasing services for 11 state agencies. DOA's charges for those services totaled \$2.7 million from FY 2006-07 through FY 2008-09, and the affected agencies are generally satisfied with the services provided.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

As shown in Figure 1, 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.

Figure 1

Contract Expenditures
(in millions)



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](#)).

■ ■ ■ ■

Introduction ■

***2005 Wisconsin Act 25
required DOA to
implement the ACE
Initiative's four
components.***

2005 Wisconsin Act 25, the 2005-07 Biennial Budget Act, required DOA to implement the four key components of what subsequently became known as the Governor's ACE Initiative:

- consolidating human resources services from state agencies within DOA;
- consolidating purchasing services from state agencies within DOA, as well as executing new and improved purchasing contracts for goods and services commonly used by state agencies and UW System, such as office supplies, printers, and IT services;
- selling surplus state property, including land and buildings that were underutilized or no longer used by state agencies; and
- consolidating computer server and network support services from state agencies within DOA.

2005 Wisconsin Act 25 also eliminated administrative staff positions in a number of state agencies and created similar, but fewer, positions in DOA. The newly created positions were to provide administrative services to selected state agencies and to continue working on three large ACE Initiative-related IT projects:

- consolidating computer servers from state agencies to a central location;

- converting all executive branch agencies' e-mail systems to a common system; and
- creating IBIS, which is an enterprise resource management system designed to replace approximately 100 types of software used by state agencies for accounting, budgeting, human resources, payroll, and purchasing functions.

In addition, 2005 Wisconsin Act 25 required DOA to lapse \$35.5 million to the General Fund. DOA intended to fund its lapse requirement with savings from implementing the ACE Initiative. The sale of surplus property was intended to result in additional revenue.

Given the magnitude of the administrative changes and uncertainty about whether the expected savings were being achieved, the Legislature twice attempted to require DOA to report on the amount lapsed to the General Fund. Provisions in 2005 Assembly Bill 100 (the 2005-07 biennial budget bill) and 2005 Assembly Bill 1182, which was sent to the Governor in May 2006, would have required DOA to report on the amounts lapsed in FY 2005-06 by September 1, 2006, and on the amounts lapsed in FY 2006-07 by April 1, 2007. However, the Governor vetoed the reporting provisions in both bills.

Savings achieved from the provisions in 2005 Wisconsin Act 25 were never formally reported but were less than had been expected when the ACE Initiative was announced in March 2005. At that time, the Governor and DOA indicated that savings of nearly \$96.0 million were expected during the 2005-07 biennium, and that up to \$200.0 million could be saved over the four-year period ending on June 30, 2009. The Governor subsequently announced that the new purchasing contracts would save the State \$16.0 million or more annually, and up to \$80.0 million over the entire period in which they were in effect. As the request for this audit was being considered in April 2008, DOA acknowledged to the Joint Legislative Audit Committee that the ACE Initiative had not reduced costs to the extent anticipated and that it had ended in June 2007. Nevertheless, many components of the ACE Initiative continue, although the term is no longer used.

In completing this evaluation, we interviewed the DOA staff responsible for implementing the ACE Initiative in the 2005-07 biennium and for managing its ongoing components, as well as human resources staff in 7 state agencies and purchasing staff in 14 state agencies. In addition, we:

- reviewed 14 statewide purchasing contracts that DOA executed under the ACE Initiative and that are ongoing, and obtained information on expenditures made under these contracts from FY 2005-06 through FY 2007-08;
- obtained estimates from 22 state agencies on changes in their staffing levels and associated expenditures for human resources, purchasing, and server and network support functions from FY 2006-07 through FY 2007-08;
- reviewed DOA's efforts to sell surplus property; and
- analyzed updated information on the amounts DOA spent through June 2009 to implement the three ACE Initiative-related IT projects.

Implementing the ACE Initiative

To help develop the ACE Initiative, DOA contracted with four private firms.

Through a competitive bidding process, DOA contracted with four private firms shown in Table 1, which were believed to have the expertise necessary to assist in developing the ACE Initiative:

- Crowe Chizek, a South Bend, Indiana, accounting and consulting firm, provided a feasibility assessment, cost-benefit analysis, and technical assistance associated with the server consolidation and e-mail consolidation projects;
- Silver Oak Solutions, a Boston purchasing management firm, analyzed purchasing information for state agencies and UW System to identify goods and services that could be purchased for less and also helped DOA develop and negotiate the 14 purchasing contracts;
- Equis Corporation, a Chicago real estate consulting firm, was engaged to recommend improvements to the management of state buildings and land and to identify both underutilized properties that could potentially be sold and contracts for leased office space that could potentially be renegotiated to reduce rental costs; and

- Salvaggio, Teal & Associates, an Austin, Texas, IT consulting firm, analyzed the feasibility of implementing IBIS and facilitated meetings between DOA and other state agencies to discuss standardizing business processes and developing a request for proposals that DOA would use to select the primary software for implementing that computer system.

Table 1

**Initial Contracts with Private Firms that Helped to Implement the ACE Initiative
2004**

Contractor	ACE Initiative Component	Initial Contract Amount
Crowe Chizek and Company, LLC	IT	\$6,995,000
Silver Oak Solutions	Purchasing	2,000,000
Equis Corporation	Real Estate	572,000
Salvaggio, Teal & Associates	IT	24,500
Total		\$9,591,500

Initial contracts with these four firms totaled \$9.6 million and were executed in 2004. Appendix 1 contains a time line of key events related to the ACE Initiative, including the dates the four firms were hired.

Consolidating Administrative Functions

As part of the ACE Initiative, some state staff positions were eliminated and others were created. 2005 Wisconsin Act 25:

- eliminated 56.3 FTE human resources and purchasing positions from 15 executive branch agencies and created 23.5 FTE human resources and purchasing positions in DOA that are responsible for performing most, although not all, of the duties formerly associated with the eliminated positions.

- eliminated 115.34 FTE computer server and network support positions in 20 executive branch agencies and created 68.0 FTE such positions in DOA to work on the three ACE Initiative-related IT projects. (It should be noted that 2005 Wisconsin Act 468 subsequently restored 3.29 FTE server and network support positions to the Department of Veterans Affairs.)

Consolidating administrative functions within DOA resulted in a net reduction of 76.85 FTE positions in FY 2006-07.

As shown in Table 2, consolidating administrative functions within DOA resulted in a net reduction of 76.85 FTE positions statewide in FY 2006-07. Appendix 2 shows the number of human resources, purchasing, and server and network support positions eliminated from each agency.

Table 2

**FTE Position Changes Related to Consolidating Administrative Functions
FY 2006-07**

Positions	
Eliminated from State Agencies	(168.35)
Created in DOA	91.50
Net Change	(76.85)

DOA largely met the \$35.5 million lapse required by 2005 Wisconsin Act 25.

Based in part on savings expected under the new purchasing contracts, DOA assessed each state agency for a portion of its \$35.5 million lapse requirement under 2005 Wisconsin Act 25. After it became apparent in FY 2006-07 that anticipated savings levels were not being achieved, DOA directed state agencies with more than 50.0 FTE positions to contribute additional funds. DOA largely met the \$35.5 million lapse requirement. However, because of an error in calculating state agency assessments and a concurrent DOA directive that state agencies lapse \$724,900 associated with an intended elimination of attorney positions, \$1.0 million less than intended was lapsed. Appendix 3 shows the amount lapsed by each state agency.

Ongoing Consolidation Efforts

As a result of worsening national and state economies in 2007, executive branch agencies were required to lapse significant additional funds throughout the 2007-09 biennium, as shown in Table 3. Although these lapses were unrelated to the ACE Initiative, they have greatly exceeded the \$35.5 million lapse required under the ACE Initiative.

Table 3
Executive Branch Agency Lapses During the 2007-09 Biennium
(in millions)

	Amount
2007 Wisconsin Act 20	\$200.0
2007 Wisconsin Act 226	270.0
2009 Wisconsin Act 2	38.0
Total	\$508.0

In June 2009, 17 state agencies received ACE Initiative–related administrative services from DOA.

As noted, DOA officials told the Joint Legislative Audit Committee that the ACE Initiative had ended in June 2007. Nevertheless, human resources, purchasing, and server and network support functions remain consolidated in DOA. As shown in Table 4, 17 state agencies received ACE Initiative–related administrative services from DOA as of June 2009. Although only seven state agencies received server and network support services at that time, DOA plans to eventually provide these services to additional state agencies.

Table 4

State Agencies that Receive ACE Initiative–Related Services from DOA
As of June 2009

	Human Resources	Purchasing	Server and Network Support
Department of Administration			■
Department of Agriculture, Trade and Consumer Protection		■	■
Department of Commerce		■	
Department of Financial Institutions	■	■	
Department of Military Affairs		■	
Department of Natural Resources			■
Department of Public Instruction		■	
Department of Regulation and Licensing	■		
Department of Revenue		■	■
Department of Tourism	■	■	
Department of Veterans Affairs		■	
Educational Communications Board	■	■	■
Office of the Commissioner of Insurance	■	■	
Office of State Public Defender		■	
Office of the State Treasurer			■
Public Service Commission	■		
State Fair Park	■		■

■ ■ ■ ■

Human Resources ■

Certain human resources duties were consolidated from seven small state agencies within DOA.

Under the ACE Initiative, responsibility for certain human resources duties in seven small state agencies was consolidated within DOA in FY 2005-06. DOA annually charges each of these agencies for the human resources services it provides them. However, all seven state agencies continue to be responsible for performing some human resources duties and, therefore, continue to incur costs in addition to the amounts charged by DOA.

Consolidated Services

In June 2008, DOA had 15.8 FTE human resources positions, including the 8.0 FTE positions added by the ACE Initiative provisions in 2005 Wisconsin Act 25. One DOA staff member provides State Fair Park with all of its human resources services and is located on-site in West Allis. Other DOA staff are not assigned to serve individual agencies but instead provide all state agencies with specific types of services, such as those related to labor relations grievances and workers' compensation and affirmative action issues.

The seven state agencies are generally satisfied with DOA's human resources staff and services.

Human resources staff in the seven state agencies involved in the consolidation indicated to us that their agencies have been generally satisfied with DOA's human resources staff and with human resources services provided by DOA. They indicated that DOA's staff have been knowledgeable and prompt when responding to requests for information or assistance. State Fair Park reports that it

now pays less for human resources services and is able to quickly resolve complex issues that can arise when hiring employees.

One reason that consolidation has been largely successful is that DOA drafted a division-of-labor agreement with each of the seven state agencies clarifying tasks that DOA would perform and those that each agency would remain responsible for completing. For example, DOA helps new staff complete required employment forms, conducts fringe benefit counseling, and discusses statewide employee policies, while state agencies develop internal policies and procedures for hiring staff.

We reviewed all seven agreements and found that they generally follow the same format and contain similar information. The agreements typically stipulate that state agencies remain responsible for human resources tasks that DOA cannot easily perform, including:

- approving staff members' time entries in the State's online payroll time and attendance system, as well as approving requests for overtime, leave without pay, and time off under the federal Family Medical Leave Act;
- conducting new employee orientation on the agencies' internal policies and procedures; and
- completing certain duties associated with hiring unclassified staff, including writing position descriptions and conducting interviews.

Variations in the agreements recognize the differing needs of the seven state agencies. For example, DOA's agreement with the Educational Communications Board specifies that the agency, rather than DOA, will handle equal employment opportunity and affirmative action issues because the Federal Communications Commission holds it responsible for doing so. Other agreements specify that DOA will handle these issues.

Ongoing Costs

Each year, beginning in FY 2006-07, DOA charges each of the seven state agencies for the human resources it provides. Charges are based on each agency's authorized positions. However, it has always been anticipated that state agencies would continue to incur additional costs to complete human resources tasks not covered by their agreements with DOA.

Over the past three fiscal years, DOA charged seven state agencies a total of \$1.9 million for human resources services.

Over the past three fiscal years, DOA charged the seven state agencies a total of \$1.9 million for its human resources services, as shown in Table 5. Largely because the charges were too low in FY 2006-07 to fully cover DOA’s costs, they were increased by 10.6 percent for FY 2007-08 but then decreased by 9.1 percent for FY 2008-09.

Table 5

DOA’s Charges for Human Resources Services Provided to 7 State Agencies

Fiscal Year	Amount	Percentage Change
2006-07	\$ 624,700	
2007-08	691,000	10.6%
2008-09	627,800	(9.1)
Total	\$1,943,500	

Because the seven state agencies do not precisely track their costs to complete human resources tasks, we asked them to provide us with the best available information on the number of staff who performed these tasks and those staff members’ salaries and fringe benefits. Although many of the agencies reported to us on the number of their own staff who completed human resources tasks, some did not. The agencies that did report staffing information indicated to us that from FY 2006-07 through FY 2007-08, they spent a total of \$1.3 million to complete human resources duties not performed by DOA. In both years, this amount included the salaries and fringe benefit costs associated with the equivalent of 2.2 full-time positions across the seven state agencies. None of these agencies reported hiring contractors to help complete human resources tasks during the two-year period.

Careful, ongoing legislative scrutiny of efforts to consolidate human resources functions is warranted, given DOA’s charges to state agencies. In addition, further consolidation may occur in the next few years. Nonstatutory provisions in 2009 Wisconsin Act 28, the 2009-11 Biennial Budget Act, state that before July 2011, DOA may develop a proposal for consolidating human resources functions of additional executive branch agencies within the Office of State Employment Relations. If the Joint Committee on Finance approves the proposal, DOA will be authorized to implement it.

Recommendation

We recommend the Department of Administration report to the Joint Legislative Audit Committee by June 30, 2010, on:

- *the amount it is charging each of the seven state agencies for the human resources services it is providing them in FY 2009-10; and*
- *its preliminary plans for consolidating the human resources functions of additional executive branch agencies within the Office of State Employment Relations.*

■ ■ ■ ■

Purchasing ■

DOA executed 14 purchasing contracts intended to reduce the State's costs for commonly used goods and services.

Under the ACE Initiative, responsibility for many purchasing duties in 11 state agencies was consolidated within DOA. In addition, DOA executed 14 purchasing contracts intended to reduce costs for goods and services ranging from institutional food and office supplies to temporary staffing and IT services. As of June 2008, more than 125 vendors were eligible to provide goods and services under these contracts, which began to be negotiated in 2005 and remain in effect.

Executive branch agencies and UW System are generally required to make purchases from contract vendors, while the legislative and judicial branches and all local governments are permitted and encouraged to do so. It should be noted that executive branch agencies and UW System purchased a total of approximately \$3.9 billion in supplies and services in FY 2007-08, and that purchases under the 14 ACE Initiative contracts represented only 2.7 percent of this total.

Purchasing duties were consolidated from 11 state agencies.

We reviewed the consolidation of 11 state agencies' purchasing duties within DOA. We also used available data provided by DOA, including reports that are contractually required of vendors, to analyze expenditures, savings, and potential overpayments under the contracts; DOA's management and oversight; and the waiver process under which goods and services may be purchased from non-contract vendors.

Consolidated Services

In June 2008, DOA had 41.8 FTE purchasing staff, including 15.5 FTE positions added as a result of the ACE Initiative. DOA provides the 11 state agencies involved in consolidation with a variety of services, including approval of purchase orders for products costing more than \$5,000 and management of requests for bids and proposals. DOA's purchasing staff are assigned to serve specific state agencies, except for one staff member who provides printing services to all state agencies. Other DOA staff administer the 14 purchasing contracts.

As with human resources, DOA annually charges state agencies for its purchasing services, but the 11 state agencies remain responsible for some purchasing tasks, including:

- purchasing products that cost less than \$5,000;
- administering purchasing cards used by state agency staff;
- completing simplified bids, which are bids for goods or services costing less than \$25,000;
- conducting background work for requests for bids or proposals, such as identifying the products needed and evaluating proposals obtained from vendors; and
- administering the contracts on a day-to-day basis, such as assessing the performance of vendors.

The 11 state agencies reported to us that they have been generally satisfied with DOA's services, and they understand the specific purchasing duties that DOA will complete for them and the duties they remain responsible for completing. Nevertheless, it may be helpful for DOA to formalize individualized agreements with each of the 11 state agencies in order to make explicit the division of responsibilities. As noted, formalized agreements have contributed to the successful consolidation of human resources functions.

Recommendation

We recommend the Department of Administration execute division-of-labor agreements with each state agency for which it provides purchasing services.

Ongoing Costs

Beginning in FY 2006-07, DOA has annually charged each of the 11 state agencies for the purchasing services it provides, based on the number of purchase orders, bids, requests for proposals, and other work it completes for them. However, state agencies continue to incur costs related to some purchasing duties.

Over the past three fiscal years, DOA charged 11 state agencies a total of \$2.7 million for its purchasing services.

As shown in Table 6, DOA charged the 11 state agencies a total of \$2.7 million from FY 2006-07 through FY 2008-09 for its purchasing services. Because DOA's costs were lower than expected, the total amount DOA charged decreased by 6.8 percent after the first fiscal year but then increased by 1.0 percent from FY 2007-08 to FY 2008-09.

Table 6

DOA's Charges for Purchasing Services Provided to 11 State Agencies

Fiscal Year	Amount	Percentage Change
2006-07	\$ 956,400	
2007-08	891,500	(6.8)%
2008-09	900,600	1.0
Total	\$2,748,500	

Because the 11 state agencies do not precisely track all ongoing costs related to purchasing tasks, we asked them to provide us with the best available information on the salaries and fringe benefit costs of their own staff who performed those tasks, as well as any costs paid to contractors. The agencies reported to us that from FY 2006-07 through FY 2007-08, they spent a total of \$1.6 million to conduct purchasing activities not performed by DOA. Although many of the agencies reported to us on the number of their own staff and contractors who completed purchasing tasks, some did not. The agencies that did report staffing information indicated that a total of:

- staff in 5.6 FTE positions completed purchasing tasks in FY 2006-07, including 3.8 full-time, 1.0 contract, and 0.8 LTE positions; and
- staff in 3.6 FTE positions completed purchasing tasks in FY 2007-08, including 1.8 full-time, 1.0 contract, and 0.8 LTE positions.

Some state agencies indicated that the amount of purchasing-related work for which they remain responsible has not been significantly reduced. As a result, they reported that staff who were not hired to perform purchasing duties must now do so and that new staff have been hired in some instances. For example, the Department of Public Instruction, which had 3.0 FTE purchasing positions eliminated by 2005 Wisconsin Act 25, in FY 2006-07 hired an additional 3.1 FTE staff to manage its contracts, purchase goods and services, train other staff on purchasing procedures, and purchase printing services for the tests and educational materials it distributes to schools.

Purchasing Contract Terms and Expenditures

DOA expected that negotiating purchasing contracts would save \$27.0 million in the 2005-07 biennium.

A significant component of the ACE Initiative involved negotiating purchasing contracts. DOA expected that negotiating lower prices and reducing the variety of products available for purchase would save the State \$27.0 million in the 2005-07 biennium.

DOA developed and negotiated 14 new purchasing contracts as part of its contract with Silver Oak Solutions, which analyzed the FY 2003-04 expenditures of state agencies and UW System to identify purchases for which lower prices could be negotiated because:

- contracts would generally require state agencies and UW System to make purchases from authorized vendors, which would increase opportunities for volume discounts;
- contracts for goods would include a limited range of products, which would enable vendors to achieve economies of scale; and
- contracts for services would reduce the maximum hourly rates vendors were authorized to charge compared to prior services contracts.

As shown in Table 7, the 14 new contracts include 10 contracts for goods and 4 for services. The earliest took effect in August 2005. The number of authorized vendors differs by contract but ranges from 3 for office supplies to more than 50 for IT services. Additional information on each contract, including reported expenditures of state agencies and UW System and payments received by individual vendors through June 2008, is provided in Appendix 4.

Table 7

Statewide Purchasing Contracts

Contract Type	Products Available	Effective Date
Goods		
Food	Food products for state institutions	January 2006
Office Supplies	General office supplies, copy paper, and copier toner	November 2005
Software	Business software	September 2005
Office Furniture ¹	Office chairs, tables, storage, and office systems	October 2006
Computer Peripherals	Computer accessories, including storage media, memory, power protection, scanners, and monitors	September 2005
Janitorial Supplies	Cleaning and floor care chemicals, equipment, and supplies	December 2005
Maintenance, Repair, and Operations Supplies	Electrical equipment, heating/ventilation/air conditioning equipment, and plumbing supplies	December 2006
Copiers and Fax Machines	Copiers, fax machines, and related devices	August 2005
Printers	Monochrome and color printers, toner, and accessories	May 2007
Disposable Food Service Items	Food preparation supplies such as aluminum foil, disposable cutlery, and food disposal bags	October 2006
Services		
IT Services	Software programming, IT project management, and database and network management	September 2005
Temporary Staffing Help	Clerical, general labor, and event staffing	July 2006
Consulting and Accounting Services	Accounting, project management, and strategic planning	October 2006
Fleet Vehicle Maintenance	Routine maintenance and repair of state fleet vehicles	May 2006

¹ Includes the State's prison industry program (Badger State Industries) and other vendors.

DOA relies on periodic reports submitted by vendors to track contract expenditures.

All contracts but one require vendors to provide DOA with expenditure data for tracking purposes. The vendors' periodic reports are submitted electronically and include products purchased, purchase dates, quantities purchased, and prices paid. DOA does not require vendors that provide maintenance services to state fleet vehicles to report this information because some cannot do so or rarely conduct business with the State.

The contractually required vendor reports include purchases by check, electronic debit, or purchasing cards. A more detailed review of purchasing card transactions was released earlier in September 2009.

Reported contract expenditures increased from \$41.2 million in FY 2005-06 to \$106.8 million in FY 2007-08.

As shown in Table 8, the reported expenditures of state agencies and UW System under 13 purchasing contracts have increased significantly, from \$41.2 million in FY 2005-06 to \$106.8 million in FY 2007-08. The increase occurred, in part, because the number of contracts in effect increased throughout the three-year period. Only in FY 2007-08 were all of the contracts in effect for the entire year.

Table 8

Contract Expenditures by Executive Branch Agencies¹
(in millions)

Contract Type	FY 2005-06	FY 2006-07	FY 2007-08	Total
Goods				
Food	\$ 5.1	\$16.8	\$ 18.6	\$ 40.5
Office Supplies	7.3	15.0	14.8	37.1
Software	5.4	11.6	11.2	28.2
Office Furniture	–	2.2	10.8	13.0
Computer Peripherals	1.9	5.0	4.6	11.5
Janitorial Supplies	1.5	3.0	3.7	8.2
Maintenance, Repair, and Operations Supplies	–	2.1	5.5	7.6
Copiers and Fax Machines	1.0	1.5	1.8	4.3
Printers	–	0.2	3.0	3.2
Disposable Food Service Items	–	<0.1	1.0	1.0
Subtotal	22.2	57.4	75.0	154.6
Services				
IT Services	19.0	31.0	29.9	79.9
Temporary Staffing Help	–	1.0	1.2	2.2
Consulting and Accounting Services	–	0.3	0.7	1.0
Subtotal	19.0	32.3	31.8	83.1
Total	\$41.2	\$89.7	\$106.8	\$237.7

¹ As reported by contract vendors other than those under the fleet vehicle maintenance contract; includes products bought through direct payment or with purchasing cards.

Under a contract with DOA, Silver Oak Solutions was to be paid only if the purchasing contracts it analyzed and helped to negotiate resulted in savings that were at least twice the cost of its work. DOA cancelled this contract in March 2006, and in June 2007 it paid the firm \$600,000 as part of a settlement agreement for work partially completed. DOA chose not to negotiate additional purchasing contracts as recommended by Silver Oak Solutions, including contracts for building maintenance, road salt, and computer mainframe software, because it did not believe they would result in sufficient savings.

Purchasing Contract Savings

When it helped negotiate the State's purchasing contracts, Silver Oak Solutions estimated future savings under 11 contracts. The estimates compared prices of products the State had purchased in FY 2003-04 with prices for the same products under the new contracts, then estimated quantities the State would purchase under the new contracts. DOA continues to estimate the State's savings under ten purchasing contracts in the same manner. Savings under the printer contract, which was cancelled and subsequently re-executed, and the contracts for disposable food service items, fleet vehicle maintenance, and office furniture are not estimated because DOA cancelled its contract with Silver Oak Solutions before all required data had been gathered.

Calculating contract savings is challenging.

Calculating contract savings is challenging because comprehensive expenditure information does not exist, and there are multiple valid methods to calculate savings. However, we found that DOA's method for calculating contract savings has shortcomings. First, the calculations are based on particular products purchased in FY 2003-04, which in many instances are no longer available or have been replaced by newer products, particularly in cases of computer peripherals and software. Second, DOA's contract savings calculations do not reflect pricing changes since the contracts were originally executed.

We therefore attempted to independently determine the State's total savings under the purchasing contracts by using the contractually required vendor reports to compare amounts paid for specific products in FY 2003-04 with the amounts paid under the contracts. It should be noted that information is not available for all goods and services purchased in FY 2003-04, and many goods purchased then are either no longer available or no longer comparable because manufacturing or specifications have changed. This is particularly true of computer products. Our analysis was therefore limited to only 21.8 percent of goods and services purchased under 8 of the 14 contracts. Comparable pricing information was not available for any other goods and services purchased under the 14 contracts.

The State saved an estimated \$18.9 million on selected purchases from FY 2005-06 through FY 2007-08.

As shown in Table 9, we estimate the State saved a total of \$18.9 million from FY 2005-06 through FY 2007-08 on these selected purchases. More than 80.0 percent of the savings occurred under the IT services contract. Through June 2008, the State spent \$79.9 million under this contract. The IT services contract specifies maximum hourly labor rates that are, with a few exceptions, significantly lower than those in effect before the contract's execution and, according to 2008 information by an IT research firm, among the lowest third for comparable private-sector jobs in Madison and Milwaukee.

Table 9

Estimated Savings under Purchasing Contracts¹
FY 2005-06 through FY 2007-08

Contract Type	Amount	Percentage of Products Analyzed
Goods		
Office Supplies	\$ 2,379,200	12.4%
Janitorial Supplies	173,000	27.5
Maintenance, Repair, and Operations Supplies	53,500	2.2
Software	26,900	0.3
Computer Peripherals	(9,000)	4.6
Subtotal	2,623,600	9.2
Services		
IT Services	15,703,600	80.0
Consulting and Accounting Services	609,400	91.9
Temporary Staffing Help	(25,700)	60.6
Subtotal	16,287,300	78.7
Total	\$18,910,900	21.8

¹ Based on 21.8 percent of the total goods and services purchased under 8 of the 14 contracts. No comparable pricing information was available for any other goods and services.

Compared to the prices under the prior contracts, DOA expected that the State would pay less for some goods and services but more for others. Overall, however, it expected that the State would save money under the 14 new contracts. Savings under the contracts have been significant in some instances. For example:

- the cost of experienced computer programmers averaged \$82 per hour in FY 2003-04 but \$63 per hour under the IT services contract;
- one type of printer toner cost \$136 in FY 2003-04 but only \$39 under the office supplies contract; and
- a container of disinfectant cost \$89 in FY 2003-04 but only \$48 under the janitorial supplies contract.

However, in other cases the State paid significantly more for goods and services under the purchasing contracts. For example:

- the cost of entry-level computer systems administrators averaged \$31 per hour in FY 2003-04 but \$45 per hour under the IT services contract;
- one type of replacement computer battery cost \$126 in FY 2003-04 but \$297 under the computer peripherals contract; and
- one type of paper shredder cost \$175 in FY 2003-04 but \$281 under the office supplies contract.

Potential Overpayments

To determine whether the State had been billed and had paid the amounts stipulated in the purchasing contracts, we analyzed available contract and payment data. We compared records of payments in the vendors' contractually required reports with the maximum hourly rates stipulated in the IT services, temporary staffing help, and consulting and accounting services contracts.

We identified \$396,100 in potential overpayments under three services contracts.

As shown in Table 10, the data show that from September 2005 through June 2008, state agencies and UW System paid \$396,100 more than contractually allowed. Most of the potential overpayments were for services provided under the IT services contract, which is managed by COMSYS IT Partners, Inc., under a contract with DOA. DOA does not pay COMSYS for contract management services, which include helping state agencies and UW System identify appropriate vendors based on formal service requests, compiling time sheets for vendors that provide services, and distributing payments to the vendors. Instead, vendors pay COMSYS 2.5 percent of their payments from the State. From

FY 2005-06 through FY 2007-08, COMSYS was paid a total of \$2.0 million by the State’s IT services vendors. Appendix 5 lists all service contract vendors that appear to have been overpaid by the State.

Table 10

Potential Overpayments to Vendors
September 2005 through June 2008

Contract	Amount
IT Services	\$361,600
Temporary Staffing Help	33,900
Consulting and Accounting Services	600
Total	\$396,100

Recommendation

We recommend the Department of Administration review the amounts paid to the vendors under the services contracts and recover any amounts that vendors overcharged the State.

Under a contract with DOA that began in February 2006 and expired in October 2008, Office Depot provided office supplies to the State. From February 2006 through June 2008, Office Depot reported to DOA that under this contract, state agencies and UW System spent a total of \$27.0 million. In October 2008, DOA executed a new office supplies contract with Corporate Express.

In response to state agencies’ complaints that they were being overcharged for goods purchased from Office Depot and to the findings of audits in several other states, DOA analyzed all contract purchases made from Office Depot from January 2006 through March 2008. Office Depot was found to have overcharged the State \$666,700, which it was contractually required to repay, although the contract did not include penalties. DOA did not, however, require any repayment because the firm documented a total of \$962,800 in undercharges for other products. Subsequently, DOA and Office Depot agreed to modify the prices the State was charged for office goods.

The purchasing contract with Office Depot expired in October 2008 and was not renewed by mutual agreement. As noted, DOA has executed a new office supplies contract. The new vendor, Corporate Express, is contractually required to provide an electronic price list that includes the maximum allowable price for each product.

In 2008, prices for 25 of 100 products on the Corporate Express Web site were priced above the allowable maximum.

Shortly after the contract with Corporate Express was executed, we compared maximum allowable prices for 100 randomly selected products to prices on the firm's Web site that state agencies and UW System use for purchasing. We found that while 75 of the 100 products were priced at or below the allowable maximum or were not listed on the firm's Web site, 25 products were priced above the allowable maximum. For example, one printer ink cartridge was priced at \$438, which was \$28 more than contractually allowed, and another printer ink cartridge was priced at \$134, which was \$24 more than contractually allowed.

Shortly after the contract was executed, DOA also noted that the prices charged by Corporate Express for some products were higher than the allowable maximums. It requested additional information from the firm, reviewed the amounts charged for products, and determined that the firm had overcharged state agencies and UW System a total of \$192,300. DOA indicates that Corporate Express credited this amount to state agencies and UW System. It continues to conduct monthly and quarterly reviews of the firm's expenditure reports.

Vendor Reporting

We identified concerns with the accuracy and completeness of information reported by contract vendors.

We identified concerns with the accuracy and completeness of information reported by contract vendors. Effective contract management requires a system for checking vendors' reports and verifying the accuracy of their information. DOA officials have stated publicly that they use the information provided by vendors to renegotiate purchasing contracts in ways that increase savings. For example, if the reports indicate that the State tends to purchase more of particular goods and services than was anticipated when the contracts were originally executed, DOA attempts to renegotiate volume discounts. However, we found that the vendors' reports are not always accurate, and DOA was unaware of inaccuracies until we brought them to its attention. For example:

- one vendor's report erroneously indicated that two state agencies and two UW institutions had spent a total of \$68.5 million for office furniture in May 2007 and June 2007, when only \$759,700 had been spent; and

- three reports for the maintenance, repair, and operation supplies contract erroneously included \$3.7 million in expenditures, consisting of \$2.0 million in duplicate charges and \$1.7 million in data entry errors. Although state agencies and UW System did not pay these amounts, DOA was not aware of these errors until the time of our fieldwork.

We also found that vendors' reports to DOA were sometimes incomplete. For example, they did not include prices for 88.7 percent of the 3,484 products purchased under the contract for printers and therefore could not be used to ensure the accuracy of prices charged by vendors.

In addition, we found instances of identical products being available under multiple contracts at different prices. For example:

- Under the computer peripherals contract, one vendor's average charge for copier toner cartridges was \$115. Under the office supplies contract, another vendor's average charge was \$91.
- Under the office supplies contract, one vendor's average charge for printer ink cartridges was \$111. Under the computer peripherals contract, another vendor's average charge was \$30.

Given the significant number of products available for purchase under some of the contracts and the quantities purchased, even the most diligent of vendors may occasionally submit erroneous information. Although it is not feasible to verify every purchase made, DOA could electronically review vendors' reports, identify and investigate obvious errors and overcharges, and take action to recover any amounts that vendors may have been overpaid. Although DOA does review some vendors' reports, it does not consistently and regularly review all of them.

The IT services contract allows DOA to assess vendors that charge more than the maximum hourly rate stipulated in their contracts a fee in the amount of the overcharge plus 10.0 percent. We found that DOA has never assessed any fees, in part because at the time of our fieldwork it was aware of only one overcharge. DOA recovered that overcharged amount but did not assess the additional 10.0 percent fee. Other purchasing contracts do not contain similar provisions.

☑ Recommendation

We recommend the Department of Administration:

- *implement a process for verifying the accuracy of information in contract vendors' expenditure reports, including ensuring that the State is not charged more than the contractually stipulated maximum prices for goods and services; and*
- *include provisions in all future purchasing contracts that will allow it to assess financial penalties on vendors that charge the State more than contractually stipulated.*

Waivers

DOA must approve waivers that authorize purchases from non-contract vendors.

DOA must approve waivers that authorize purchases from non-contract vendors. Because the purchasing contracts include volume discounts that contract vendors may seek to renegotiate if anticipated quantities are not sold, significant purchases from non-contract vendors could have a negative effect on cost savings. DOA indicated that it therefore typically approves waiver requests only if a product:

- is not inexpensive, in order to discourage state agencies and UW System from excessively searching for prices that are only marginally lower than the contractually stipulated prices;
- is unavailable from a contract vendor and needed without delay; or
- is available from a contract vendor but can be purchased elsewhere for "significantly less," although DOA has not defined this term.

Through June 2008, state agencies and UW System requested 293 waivers. As shown in Table 11, DOA approved 278 waiver requests, or 94.9 percent of the total. UW System requested 128 of the 293 waivers, or 43.7 percent of the total. The Department of Corrections requested 35, the Department of Natural Resources requested 30, DOA requested 24, the Department of Transportation requested 17, and 21 other state agencies requested the remaining 59 waivers.

Table 11

Waivers by Contract Type
Through June 2008

Contract	Approved	Denied	Total
Office Furniture	57	1	58
Printers	43	0	43
Maintenance, Repair, and Operations Supplies	40	0	40
IT Services	31	1	32
Software	27	2	29
Food	25	2	27
Copiers and Fax Machines	13	5	18
Consulting and Accounting Services	12	3	15
Office Supplies	9	0	9
Janitorial Supplies	9	0	9
Disposable Food Service Items	8	0	8
Computer Peripherals	3	1	4
Temporary Staffing Help	1	0	1
Fleet Vehicle Maintenance	0	0	0
Total	278	15	293

DOA decided 51.7 percent of all waiver requests on the same day that it received them.

To address state agencies' and UW System's concerns about the timeliness of DOA's approval or denial of waiver requests, we reviewed available paper files. Complete information was available for 242 of the 293 waiver requests made through June 2008, and the data show that DOA's responses have generally been timely. Decisions on 125 waiver requests, or 51.7 percent of those for which data were available, were made on the day of receipt, and e-mail messages indicated they were frequently made within minutes. DOA decided 83.1 percent of the 242 waiver requests within three calendar days but took more than ten calendar days to decide 13 requests. The longest decision took 37 calendar days.

As shown in Table 12, the most common reason for waiver requests was that the product was unavailable from contract vendors. This could occur when products were temporarily out of stock, or when vendors did not sell a specific product and suitable substitutes were unavailable.

Table 12

**Reasons for Waiver Approval and Denial
Through June 2008**

Reason	Approved	Denied	Total	Percentage of Total
Product was unavailable from contract vendors	108	0	108	36.9%
Non-contract vendor had a lower price	75	9	84	28.7
No response from qualified contract vendors	31	0	31	10.6
Furniture available under the contract did not match existing furniture	28	0	28	9.5
Non-contract vendor had a lower price and faster delivery time	9	0	9	3.1
Non-contract vendor had a faster delivery time	6	0	6	2.0
State agency preferred products that were unavailable under the contract	6	0	6	2.0
Other ¹	15	6	21	7.2
Total	278	15	293	100.0%

¹ Includes requests for special items and for IT services that were unavailable under the contract.

DOA does not have written policies that specify how waivers are to be requested.

DOA does not have written policies that specify how waivers are to be requested, which information should accompany a request, the level of savings that must be demonstrated, or other justification. It is therefore not surprising that we found a few instances in which DOA's contract managers, who are responsible for ensuring that vendors, state agencies, and UW System follow the contract rules, did not consistently consider waiver requests. For example:

- The manager of the copiers and fax machines contract denied all requests to save money by purchasing products from non-contract vendors, including one request to purchase two copiers at a savings of \$800. In denying that request, the contract manager indicated that waivers were granted based only on a product's technical specifications.
- The manager of the maintenance, repair, and operations supplies contract did not deny any waiver requests, even those that saved less than \$100.

- The manager of the software contract denied two waiver requests that would have saved \$52 and \$338 because the amounts were not significant enough, but approved two other requests that saved \$132 and \$183.

To ensure that all waiver requests are decided by the same criteria, we believe DOA should formulate prescriptive policies that address the types of information state agencies and UW System must submit with waiver requests. The circumstances under which requests will be approved, including the minimum savings that must be demonstrated, should also be described in policy documents.

Recommendation

We recommend the Department of Administration establish policies for its contract managers to use when deciding whether to approve or deny waiver requests from provisions of the purchasing contracts.

■ ■ ■ ■

Property Sales ■

Additional revenue was anticipated from the sale of surplus state property.

The ACE Initiative anticipated revenue from the sale of surplus state property. 2005 Wisconsin Act 25 authorized DOA to sell \$36.0 million in surplus property during the 2005-07 biennium, while 2007 Wisconsin Act 20 authorized DOA to sell \$40.0 million in surplus property during the 2007-09 biennium. Net proceeds from all sales during this four-year period were to be deposited in the General Fund.

Sale of Surplus Property

Before July 2005, state agencies had been responsible for identifying their surplus real property and, in most instances, notifying the eight-member Building Commission before selling that property. The Building Commission, which coordinates the State's building program and establishes long-range plans for the development of the State's physical assets, was statutorily required to notify the Joint Committee on Finance, in writing, whenever it proposed to sell or lease any property with a fair market value of \$20,000 or more. Unless the Finance Committee objected, the Building Commission was authorized to sell the property, and the net proceeds were deposited in the State's Budget Stabilization Fund, which is informally known as the "rainy day fund." 2005 Wisconsin Act 25 still required the Building Commission to approve all sales of surplus property but not to inform or obtain approval from the Joint Committee on Finance.

Net proceeds from the sale of surplus property in the 2005-07 biennium were projected to be \$36.0 million, based on DOA's initial assumptions concerning the value of 11 state properties. To identify additional surplus property, DOA reviewed state agencies' property reports and contracted with Equis, the Chicago real estate consulting firm, for a portfolio review and recommendations of potential saleable properties, cost savings, efficiencies, and improved management practices. Based in part on suggestions provided by Equis, DOA developed a list of 27 properties that it considered selling during the 2005-07 biennium. DOA did not estimate the amounts for which all of these properties, which are listed in Appendix 6, could be sold.

Building Commission policies require at least two appraisals before property is sold and that the selling price be at least as much as the average of the appraisals. Sales may be made based on either negotiated prices or public bids, with DOA having the right to reject any bids.

***In the 2005-07 biennium,
DOA sold two surplus
properties and deposited
\$9.1 million in the
General Fund.***

In the 2005-07 biennium, DOA sold two surplus properties and deposited \$9.1 million in the General Fund. Both properties, which were a total of 1,486 acres of vacant farmland in Hobart and Oneida owned by the Department of Corrections, were sold to the Oneida Tribe of Indians of Wisconsin in December 2005. Available information indicates that DOA followed its procedures when appraising and selling both properties.

***In the 2007-09 biennium,
DOA sold two surplus
properties and deposited
\$457,700 in the
General Fund.***

Although surplus property sales during the 2005-07 biennium were \$26.9 million less than authorized by 2005 Wisconsin Act 25, DOA was subsequently authorized to sell \$40.0 million in surplus property during the 2007-09 biennium. DOA sold two properties and deposited \$457,700 in the General Fund. These sales included vacant land in Sturtevant owned by the Department of Corrections, which was sold to a private developer, and vacant land in Rhinelander owned by the Department of Transportation, which was sold to the United States Forest Service. Available information indicates DOA again followed its procedures when appraising and selling these properties.

DOA provided a number of reasons it did not sell as much surplus property as authorized:

- The property market has been depressed, which has made it challenging to sell at appraised values.
- DOA had originally anticipated selling properties with considerable value, including its own Administration Building in downtown Madison,

which Equis had estimated could be sold for \$29.0 million, and the Hill Farms State Transportation Building in Madison, which Equis estimated could be sold for \$13.7 million. These properties have not been sold because buyers have been unwilling to purchase them for amounts that reflect their assessed values.

- It often takes two years or more to sell property, including time to obtain the Building Commission's approval, appraise the property, identify potential buyers, and negotiate a sale price.
- Negotiations take longer if a state agency wants to continue using a portion of a property after it has been sold, because DOA must execute a lease with the new owner.

DOA ended its contract with Equis in May 2007, after one of the firm's vice presidents was indicted for soliciting a kickback from a potential buyer of DOA's Administration Building. In March 2009, this individual was convicted in U.S. District Court, Eastern District of Wisconsin of bribery, wire fraud, and other offenses.

Concerns have also been raised about the commissions that Equis was eligible to receive for property sales. Equis was involved in only one of DOA's four surplus property sales. For the sale of the vacant land in Sturtevant, Equis was to receive a 6.0 percent commission of \$16,700. However, DOA placed that commission in escrow until legal issues involving the Equis employee were resolved. Because of that individual's conviction, the commission was returned to DOA in April 2009. DOA's contract had stipulated that Equis would receive a commission of 25.0 percent for services associated with identifying, marketing, and brokering the sale of properties other than the 27 that had been identified jointly by Equis and DOA. Equis never received such a commission.

Future Property Sales

The only property DOA was in the process of selling during the course of our audit fieldwork was 264 acres of vacant land at the Department of Corrections' Waupun Correctional Farm, which has an estimated value of \$1.8 million. At that time, DOA had not brought the proposed sale to the Building Commission for approval. DOA is attempting to negotiate a lease on a portion of the property in order to allow the Department of Corrections to continue using it as a shooting range for correctional officers.

2007 Wisconsin Act 20 enumerated \$50.0 million in program revenue bonding for a replacement facility for the Department of Transportation's Hill Farms State Transportation Building. DOA still hopes to sell the existing building and 16 of the 21 acres of surrounding state-owned land and to construct a new building on the other 5 acres, although there have been no offers from potential buyers. A buyer would likely demolish the existing building and use the land for new commercial or residential development, subject to necessary municipal approval.

2009 Wisconsin Act 28, the 2009-11 Biennial Budget Act, extended DOA's authority to identify and sell surplus property through FY 2010-11 but did not attach a dollar value to that authority. DOA believes its staff have sufficient knowledge and expertise to identify which land is best sold and to work with real estate professionals to sell the property as quickly as possible.

Careful legislative scrutiny of the ongoing sale of surplus property continues to be warranted, including the feasibility of selling substantial amounts of surplus property and the long-term implications of using proceeds from surplus property sales to address current budget shortfalls. If the sale of existing property were to require purchasing or constructing a new building to house displaced staff, the State would acquire additional long-term debt that would have to be budgeted for in subsequent biennia. Any such debt would offset financial benefits from the initial sale.

Recommendation

We recommend the Department of Administration report to the Joint Legislative Audit Committee by June 30, 2010, on each piece of surplus state property sold during FY 2009-10, including the property's location, purchaser, and sale amount.

■ ■ ■ ■

Information Technology ■

The ACE Initiative involved consolidating server and network support functions within DOA.

A final component of the ACE Initiative involved consolidating server and network support functions within DOA and improving IT management. Three IT projects that were managed by DOA with assistance from staff in other state agencies were associated with the ACE Initiative:

- server consolidation;
- e-mail consolidation; and
- IBIS, the information system intended to replace much of the existing administrative software used by state agencies.

IT Project Expenditures

DOA spent a total of \$113.5 million on the three IT projects through June 2009.

Through June 2009, DOA spent a total of \$113.5 million on the three IT projects that were associated with the ACE Initiative, as shown in Table 13. This amount includes implementation and ongoing maintenance costs. It is an increase of \$86.2 million from the amount our 2007 review of IT projects (report 07-5) reported was spent through September 2006 on these projects.

Table 13

IT Project Expenditures
Through June 2009

Project	Amount
Server Consolidation	\$ 90,925,800
E-mail Consolidation	13,434,000
IBIS	9,137,900
Total	\$113,497,700

Server consolidation continues today. E-mail consolidation has been completed, while work on IBIS was suspended in April 2008. We noted in April 2007 that these projects' anticipated cost savings had not been achieved, in part because they were taking significantly longer than expected to complete.

Consolidated Services

When 112.05 FTE server and network support positions were eliminated from 20 state agencies in FY 2006-07, 68.0 positions were created within DOA to provide those agencies with network support services and to both maintain servers and plan for and implement their consolidation. Servers are computers or other devices specifically dedicated to managing software applications that direct basic functions such as printing documents, or program functions such as issuing driver licenses, as well as other IT resources that are used by a large number of individuals. Historically, most state agencies purchased and maintained servers independently, although DOA provided servers for a limited number of small state agencies, or for particularly large applications when state agency resources were insufficient.

As of June 2009, DOA had consolidated server and network support functions in only 7 of the 20 state agencies for which consolidation had been planned, while consolidation efforts for the other 13 are in various stages of completion. The 13 agencies continue to be responsible for operating and maintaining their own servers. To compensate for the elimination of their server and network support positions, these agencies have hired contractors, temporarily borrowed staff from other state agencies, and reassigned server and network support tasks to their remaining staff.

From FY 2006-07 through FY 2007-08, 19 state agencies reported spending \$31.6 million on server and network support.

DOA annually assesses all state agencies for the IT services it provides, but it does not separately track the amounts it charges for server and network support services. As a result, we were unable to determine these ongoing costs. However, we asked 19 of the 20 state agencies from which server and network support staff positions had been eliminated to provide us with their best available information on spending from FY 2006-07 through FY 2007-08 on server and network support duties. As shown in Table 14, these agencies reported spending a total of \$31.6 million.

Table 14

Server and Network Support Expenditures of 19 State Agencies¹

	FY 2006-07	FY 2007-08 ²	Total
Private IT Contractors	\$ 4,562,000	\$ 4,147,600	\$ 8,709,600
IT Services Provided by State Agencies	2,278,800	5,788,700	8,067,500
Salaries and Fringe Benefits	4,047,500	3,730,800	7,778,300
Software, Equipment, and Maintenance	4,262,900	2,791,700	7,054,600
Total	\$15,151,200	\$16,458,800	\$31,610,000

¹ Includes 19 state agencies from which server and network support positions were eliminated by 2005 Wisconsin Act 25. The 20th agency was DOA.

² Estimated.

Seven of the 19 agencies reported having paid a total of \$4.1 million to private IT contractors in FY 2007-08:

- the Department of Health and Family Services reported paying \$2.1 million for 14.0 FTE contract staff, or an average of \$150,000 per FTE position;
- the Department of Transportation reported paying \$986,300 for 9.0 FTE contract staff, or an average of \$109,600 per FTE position; and
- the Department of Corrections reported paying \$319,600 for 2.0 FTE contract staff, or an average of \$159,800 per FTE position.

Although state agencies have generally supported DOA’s efforts to consolidate servers and related support services, they initially raised concerns about how consolidation would occur because, as we

noted in our 2007 report, DOA's initial time line was not viewed as feasible. These concerns have continued because consolidation has proceeded more slowly than planned. In FY 2008-09, the State Historical Society received permission from DOA to allow UW System to host its servers because the two agencies share historical documents and licenses for software used to manage those documents. DOA therefore now plans to consolidate 19 state agencies' server and network support functions.

As with other areas of consolidation, continued legislative scrutiny of DOA's server consolidation efforts is warranted. As DOA proceeds with its consolidation efforts, regular communication with state agencies will be important, and DOA will need to clearly indicate the services it will provide and the tasks state agencies will remain responsible for completing.

Recommendation

We recommend the Department of Administration report to the Joint Legislative Audit Committee by June 30, 2010, on the status of its efforts to consolidate server and network support functions.

Server Consolidation

In April 2004, DOA contracted with Crowe Chizek to help it implement the server consolidation project. In a November 2004 report to DOA, Crowe Chizek indicated that server consolidation would cost approximately \$12.8 million to implement but would reduce the State's server maintenance costs by as much as 20.0 percent by making better use of existing server capacity or using fewer, larger servers. At the time, DOA stated that in addition to achieving cost savings, server consolidation would allow state agencies' IT departments to better focus on projects related directly to the agencies' programmatic functions and would improve the functioning and security of state IT resources by standardizing server management.

Server consolidation is funded by a combination of the amounts DOA assesses state agencies and by funds borrowed through the State's master lease program, which is a capital lease program created under 1991 Wisconsin Act 39 to finance the purchase of property or services. Since 1996, DOA and other state agencies have routinely used the master lease program to finance software customization or development projects, including some costs related to two of the three ACE Initiative-related IT projects.

DOA spent \$90.9 million on server consolidation through June 2009.

As shown in Table 15, DOA spent \$90.9 million on server consolidation through June 2009, which is more than seven times the initial cost estimate of \$12.8 million to implement the project. Spending to date includes \$20.9 million in master lease principal and interest payments but excludes state agencies' consolidation planning and implementation costs, which we were unable to quantify because not all state agencies maintain detailed time accounting records for IT staff.

Table 15

Server Consolidation Expenditures Through June 2009

Type	Amount	Percentage of Total
Computer Software and Equipment	\$33,278,600	36.7%
Salaries and Fringe Benefits	25,020,100	27.5
Indirect Costs ¹	15,039,100	16.5
Contractor Costs ²	9,319,100	10.2
Supplies and Services	8,268,900	9.1
Total	\$90,925,800	100.0%

¹ Includes budgeting, purchasing, asset management, and infrastructure costs, as well as the salaries of DOA staff who provide financial or administrative support to the project.

² Includes amounts paid to Crowe Chizek; Insight Public Sector, Inc.; IBM; Inacom, Inc.; and other firms.

Plans for server consolidation originally included 24 state agencies, including DOA. 2005 Wisconsin Act 25 and 2005 Wisconsin Act 468 exempted the Department of Justice, the Department of Veterans Affairs, and the State Public Defender Board from consolidation because of data confidentiality and other concerns. The Department of Military Affairs was subsequently excluded because of restrictions on the use of its federal funding. Three independent agencies—the State Elections Board, which is now part of the Government Accountability Board, the Higher Educational Aids Board, and the Wisconsin Employment Relations Commission—were excluded because DOA already managed their servers. As noted, the State Historical Society has arranged for UW System to host its servers. Therefore, plans for server consolidation now involve 19 state agencies, including DOA. Appendix 7 shows the status of consolidation in each of the state agencies.

Although DOA originally anticipated that it would complete server consolidation by May 2006, consolidation has been hindered by planning that did not adequately account for the project's complexity. IT directors in state agencies have suggested that more time should have been allowed for the project and that an incremental approach to implementation would have been more appropriate, and they have questioned whether the proposed server consolidation technology will allow certain applications to be placed on the same server, as DOA had originally planned.

DOA estimates that server consolidation will be completed in June 2010, at a total cost of \$110.0 million.

DOA now estimates that server consolidation will be completed in June 2010, at a total cost of \$110.0 million. This amount includes DOA's own implementation and operating costs, but it excludes project-related staffing costs incurred by state agencies.

DOA Data Center

2003 Wisconsin Act 33, the 2003-05 Biennial Budget Act, required DOA to implement a strategy for centrally storing electronic data, which resulted in planning for a facility that would physically house the State's servers. In August 2005, the Building Commission approved DOA's request to lease a facility with approximately 57,000 square feet for a data center. DOA selected the facility, known as the Femrite Data Center, through a competitive process and entered into a 17-year lease with Lokre Data Center, LLC, in August 2005. The lease requires DOA to pay rent, property taxes, insurance, and operating and maintenance costs. After six years, DOA has the option to purchase the facility at fair-market value. While DOA has stated that the plan to construct a new data center preceded plans for server consolidation, server consolidation necessitated, at a minimum, a larger data center than otherwise would have been required.

Data center costs through June 2008 totaled \$15.6 million, including:

Data center costs through June 2008 totaled \$15.6 million.

- \$6.5 million for various building improvements, such as installation of electricity, telecommunications, and data fiber cables that were needed to provide redundant utility and communication resources;
- \$4.3 million for lease payments to Lokre, including \$472,400 in FY 2005-06, \$1.9 million in FY 2006-07, and \$1.9 million in FY 2007-08;
- \$3.5 million for utilities and general supplies and services; and

- \$1.3 million for maintenance, repair, and janitorial services provided by state staff.

DOA covers the data center's operating costs, in part, by allocating them to the server and e-mail consolidation projects, which are paid for by state agencies that participate in these projects. It allocated \$5.0 million in FY 2006-07 and \$4.1 million in FY 2007-08. The data center's remaining operating costs are covered by the general IT service fees that DOA charges all state agencies.

The data center provides security to the State's computer applications and allows the continuation of government programs in the event of a natural disaster or security threat. It was intended that the data center would create IT-related cost savings by consolidating infrastructure maintenance, staffing, and operational costs previously paid for by state agencies that maintained separate data centers. However, delays in implementing server consolidation have delayed the expected efficiencies and reduced anticipated cost savings.

E-mail Consolidation

State agencies have historically relied on a variety of e-mail software packages from vendors such as IBM, Novell, and Microsoft. DOA initiated an e-mail consolidation project in April 2004 in order to reduce the number of servers supporting e-mail software and to improve electronic communication for state agencies. Although it was managed as a separate project, e-mail consolidation directly relates to server consolidation because successful implementation would consolidate e-mail servers.

In November 2004, Crowe Chizek included a five-year cost-benefit analysis for e-mail consolidation within its broader analysis of the costs and benefits of server consolidation. The firm concluded that after the first year, e-mail consolidation would save the State \$1.7 million annually over the next four years, or a total of \$6.8 million.

In August 2004, DOA contracted with DLT Solutions, an IT consulting firm headquartered in Herndon, Virginia, to implement Oracle e-mail software and software maintenance for four years, at a total cost of \$2.6 million. This total included \$2.2 million for hardware and software licensing and support and \$423,000 to be paid to DLT Solutions for consulting services. It was expected that the project would be completed within 12 months of the contract's execution. However, when DOA implemented the Oracle software for its own staff in November 2005, staff reported unstable performance, features not working as planned, and problems

coordinating calendars with wireless devices. As a result, DOA canceled implementation of the Oracle software in February 2006 and announced it would instead implement Microsoft software.

E-mail programs at 19 state agencies and the Governor’s office were converted to the Microsoft software from June 2006 through June 2008. The project was completed in December 2008, when the last two participating agencies, the Department of Transportation and the Department of Workforce Development, were converted.

DOA reported spending \$13.4 million on e-mail consolidation through June 2009.

As shown in Table 16, DOA reported spending \$13.4 million on e-mail consolidation through June 2009, which is more than five times the project’s originally anticipated implementation cost of \$2.6 million.

Table 16

**E-mail Consolidation Expenditures
Through June 2009**

Type	Amount	Percentage of Total
Computer Software and Equipment	\$ 5,394,500	40.2%
Salaries and Fringe Benefits	2,427,100	18.1
Contractor Costs ¹	2,263,000	16.8
Indirect Costs ²	1,953,800	14.5
Supplies and Services	1,395,600	10.4
Total	\$13,434,000	100.0%

¹ Includes amounts paid to DLT Solutions, Inc.; Hewlett-Packard; Microsoft; and other firms.

² Includes budgeting, purchasing, asset management, and infrastructure costs, as well as the salaries of DOA staff who provide financial or administrative support to the project.

Integrated Business Information System (IBIS)

IBIS is intended to replace approximately 100 types of existing administrative software used by state agencies.

IBIS is an ambitious and complex IT project that is intended to replace approximately 100 types of existing administrative software used by state agencies for accounting, budgeting, human resources, payroll, and purchasing functions. While it is anticipated that all state agencies will eventually use IBIS software, the extent of each agency's use will vary based on its needs. DOA anticipates the project will save money by reducing the number of administrative software packages to be maintained and the need for future development of multiple software packages. In addition, DOA believes IBIS will reduce staffing and supply costs by, for example, reducing duplicate data entries and the need for paper forms.

In October 2004, DOA hired Salvaggio, Teal & Associates to analyze the feasibility of implementing the IBIS software. In addition, the firm facilitated efforts by DOA and other state agencies to standardize business processes in administrative areas such as accounting and human resources and to develop a request for proposals from which DOA would select the primary software vendor for IBIS implementation. In March 2005, Salvaggio, Teal & Associates recommended proceeding with statewide implementation of administrative software and estimated its cost to be \$135.3 million. In May 2006, DOA executed a contract with Oracle to purchase PeopleSoft Enterprise Solution software for IBIS.

At the time of our April 2007 report, DOA estimated that IBIS could save \$35.4 million to \$90.9 million over ten years, depending on the extent to which consultants were involved in its implementation and on the number of state staff positions that could be eliminated after IBIS was operational.

No component of IBIS has been implemented, and DOA suspended the project in April 2008.

In FY 2005-06 and FY 2006-07, anticipating that IBIS would soon be operational, DOA charged state agencies a total of \$3.2 million for costs associated with building and operating two components of the project. Since then, state agencies have not been charged and, to date, no component of IBIS has been implemented. DOA suspended the project in April 2008, citing concerns about the State's fiscal condition that made it challenging for state agencies to staff the project. DOA has not determined when work on IBIS will resume.

As shown in Table 17, \$9.1 million was spent on IBIS through June 2009, including \$2.5 million in master lease principal and interest payments. Although IBIS is suspended, DOA will incur \$4.2 million in additional master lease payments from FY 2009-10 through FY 2012-13.

Table 17

IBIS Expenditures
Through June 2009

Type	Amount	Percentage of Total
Computer Software and Equipment	\$6,085,600	66.6%
Salaries and Fringe Benefits	1,492,100	16.3
Supplies and Services	809,500	8.9
Contractor Costs ¹	679,200	7.4
Indirect Costs ²	71,500	0.8
Total	\$9,137,900	100.0%

¹ Includes amounts paid to Salvaggio, Teal & Associates; Oracle; and other firms.

² Includes budgeting, purchasing, asset management, and infrastructure costs, as well as the salaries of DOA staff who provide financial or administrative support to the project.

The costs of most IT projects that DOA manages, including server and e-mail consolidation, are accounted for by DOA's program revenue appropriation for printing, mail, communications, and IT services. However, to account for the costs of IBIS, 2007 Wisconsin Act 20 created a continuing program revenue appropriation that is funded with DOA's assessments on participating state agencies. Act 20 allows DOA's IBIS-related expenditures to exceed these assessments until the expenditures equal the depreciated value of project assets purchased, as determined by DOA.

Continued legislative scrutiny of the IBIS project is warranted.

Based on the project's cost, scope, and importance, continued legislative scrutiny of IBIS is warranted. Although DOA has not assessed state agencies for IBIS-related costs since FY 2006-07, it has continued to incur project costs. For example, Oracle was paid \$818,800 in FY 2007-08 and \$861,800 in FY 2008-09 for annual license fees and software upgrades, even though the project has been suspended. As a result of such costs, the project's appropriation had a negative balance of \$8.4 million as of June 30, 2009. To fund these costs, which will eventually be charged to participating state agencies, DOA has in effect temporarily borrowed from the General Fund. To the extent that IBIS is further delayed and its implementation costs continue to increase, future assessments on state agencies will be increased. In addition, because IBIS is complex and affects the core functions of all executive branch agencies, care must be taken to ensure that the project remains viable if it is resumed and that its various components can be implemented within a reasonable time frame, at a reasonable cost, and with limited disruption to the essential operations of state agencies.

Recommendation

We recommend the Department of Administration report to the Joint Legislative Audit Committee by June 30, 2010, on the status of the IBIS project and the current deficit amount in the project's program revenue appropriation.

■ ■ ■ ■

Future Considerations ■

The ACE Initiative has had mixed results.

As initially conceived in 2005, the ACE Initiative had broad objectives and optimistic savings estimates. Overall, however, it 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 the significant payments made to contractors into account. Ongoing consolidation efforts will therefore warrant continued attention by the Legislature.

Results of Consolidation

DOA's consolidation of administrative functions under the ACE Initiative has been largely successful. As noted, a net total of 76.85 FTE human resources, purchasing, and server and network support positions were eliminated from executive branch agencies during the 2005-07 biennium, and all but 2.8 percent of the \$35.5 million DOA was required to lapse under 2005 Wisconsin Act 25 was returned to the General Fund. The seven relatively small state agencies whose human resources functions have been consolidated within DOA are largely satisfied with services DOA provides them, although they continue to be responsible for some human resources duties for which they incur costs in addition to those incurred for services provided by DOA.

The results of efforts to consolidate purchasing have been mixed. The best available information indicates that the purchasing

contracts DOA executed as part of the ACE Initiative saved state agencies and UW System an estimated \$18.9 million through June 2008. To put the purchasing under the ACE Initiative in context, executive branch agencies and UW System spent a total of approximately \$3.9 billion in FY 2005-06, \$3.8 billion in FY 2006-07, and \$3.9 billion in FY 2007-08 for supplies and services, as recorded on the State's accounting system. Because goods and services purchased under the contracts represented only 2.7 percent of total supplies expenditures in FY 2007-08, further scrutiny of all purchases continues to be warranted.

It should also be noted that the Legislature, the Supreme Court and judicial branch agencies, municipalities, tribes, and school districts that voluntarily use the ACE Initiative contracts spent a combined total of \$37.0 million under the contracts—including \$6.4 million in FY 2005-06, \$14.9 million in FY 2006-07, and \$15.7 million in FY 2007-08—primarily under the contracts for software; printers; and maintenance, repair, and operations supplies.

However, the management of purchasing contracts could be improved. Although DOA relies on vendors to report on the goods and services purchased by state agencies and UW System, the reported information is not always accurate and complete. Further, some goods are available for purchase at different prices under multiple contracts, and the State appears to have overpaid for some goods and services.

In contrast, surplus property sales and large IT projects remain challenging. Through June 2009, only \$9.6 million in surplus property sales had been realized. In addition, spending on e-mail consolidation, server consolidation, and IBIS has significantly exceeded original estimates, and DOA has failed to meet the aggressive timetable for consolidating server and network support. Through June 2009, the servers for only seven state agencies had been consolidated, and DOA had spent a total of \$113.5 million on its three major IT consolidation projects. Some project costs have been amortized for payment in the future through master lease agreements for software license fees and upgrades. In addition, state agencies will likely be assessed the \$8.4 million that DOA borrowed from the General Fund for IBIS-related costs.

When calculating the savings and efficiencies achieved as a result of the ACE Initiative and its ongoing components, the significant amounts paid to four contractors that helped DOA create and implement the ACE Initiative must be taken into account. As shown in Table 18, the State paid these contractors \$15.2 million, or \$5.7 million more than the original contract amounts. Two of the four contractors were involved in protracted legal disputes, and as

noted DOA terminated its contract with a third firm after a former employee was convicted in federal court for various offenses related to the proposed sale of one piece of surplus state property.

Table 18

Payments to Contractors for Work on the ACE Initiative

Contractor	ACE Initiative Component	Initial Contract Amount	Total Amount Paid	Difference
Crowe Chizek and Company, LLC	IT	\$6,995,000	\$ 6,115,000	\$ (880,000)
Silver Oak Solutions	Purchasing	2,000,000	6,263,900 ¹	4,263,900
Equis Corporation	Real Estate	572,000	2,844,700 ¹	2,272,700
Salvaggio, Teal & Associates	IT	24,500	24,500	0
Total		\$9,591,500	\$15,248,100	\$5,656,600

¹ Reflects amendments to the initial contracts with Silver Oak Solutions and Equis Corporation.

Ongoing Consolidation Efforts

Consideration of the successes and challenges of the ACE Initiative and its ongoing components may be useful as the Legislature assesses other efforts to consolidate state operations. For example, 2009 Wisconsin Act 28 consolidates attorney positions from several state agencies within a new division of DOA—the Division of Legal Services—that will charge state agencies for legal services provided to them.

Similarly, in January 2009, the governors of Wisconsin and Minnesota announced plans for cooperation in purchasing products such as road salt, tractors, food served in correctional institutions, and computer software. Although definitive plans have not been made, the two governors also indicated that they hope to consolidate some administrative functions that were also components of the ACE Initiative, including human resources, purchasing, and information technology. In a press release, they indicated such efforts could save tens of millions of dollars over time. Determining whether this joint effort is successful will require reliable information on the number and cost of goods and services purchased jointly. Continued legislative attention to these issues is warranted, and additional oversight could increase the likelihood of success.



Appendix 1

ACE Initiative Key Dates

April 2004	<p>DOA contracts with Crowe Chizek, an accounting and consulting firm, for assistance with the server consolidation and e-mail consolidation projects.</p> <p>DOA contracts with Equis Corporation, a real estate consulting firm, for assistance with managing state property.</p>
May 2004	<p>DOA contracts with Silver Oak Solutions, a purchasing management firm, for assistance with identifying ways for the State to reduce its purchasing costs.</p>
October 2004	<p>DOA contracts with Salvaggio, Teal & Associates, an IT consulting firm, for assistance with IBIS.</p>
March 2005	<p>The Governor announces the ACE Initiative, which he indicates is designed to save the State up to \$200.0 million over four years.</p> <p>DOA's contract with Salvaggio, Teal & Associates ends.</p>
July 2005	<p>2005 Wisconsin Act 25 requires DOA to lapse \$35.5 million in the 2005-07 biennium, with the lapse amount coming from ACE Initiative-related functions that include various administrative services to be consolidated within DOA and new purchasing contracts to be executed. In addition, the Act directs DOA to sell \$36.0 million in surplus state property in the 2005-07 biennium.</p>
August 2005	<p>DOA enters into a 17-year lease with Lokre Data Center, LLC, for a data center in Madison to house computer servers.</p>
March 2006	<p>DOA's contract with Silver Oak Solutions ends.</p>
April 2006	<p>DOA's contract with Crowe Chizek ends.</p>
June 2006	<p>DOA starts to provide human resources services to 7 state agencies.</p>
July 2006	<p>DOA starts to provide purchasing services to 11 state agencies.</p>
May 2007	<p>DOA's contract with Equis Corporation ends.</p>
June 2007	<p>The ACE Initiative is ended without a public announcement, although many of its components continue.</p>
October 2007	<p>2007 Wisconsin Act 20 directs DOA to sell \$40.0 million in surplus state property in the 2007-09 biennium.</p>
April 2008	<p>The Joint Legislative Audit Committee approves an evaluation of the ACE Initiative. At the hearing, DOA announces that the ACE Initiative was ended in June 2007.</p> <p>DOA suspends work on IBIS, an enterprise resource management system.</p>
December 2008	<p>DOA completes the e-mail consolidation project, which began in April 2004.</p>
June 2009	<p>DOA provides server and network support services to 7 state agencies.</p>

Appendix 2

FTE Positions Eliminated by 2005 Wisconsin Act 25¹

FY 2006-07

Agency	Human Resources	Purchasing	Server and Network Support	Total
DOA	–	–	21.00	21.00
Department of Agriculture, Trade and Consumer Protection	1.50	1.00	2.75	5.25
Department of Commerce	0.60	2.20	2.45	5.25
Department of Corrections	–	14.50	8.80	23.30
Department of Financial Institutions	3.00	0.50	3.46	6.96
Department of Health and Family Services ²	–	–	21.55	21.55
Department of Military Affairs	–	3.00	0.85	3.85
Department of Natural Resources	–	–	12.00	12.00
Department of Public Instruction	–	3.00	0.88	3.88
Department of Regulation and Licensing	2.00	–	0.83	2.83
Department of Revenue	3.00	5.50	6.30	14.80
Department of Tourism	1.25	0.25	0.90	2.40
Department of Transportation	–	–	6.95	6.95
Department of Veterans Affairs	–	3.00	–	3.00
Department of Workforce Development	–	–	15.41	15.41
Educational Communications Board	0.80	1.00	1.52	3.32
Employee Trust Funds	–	–	1.65	1.65
Office of the Commissioner of Insurance	4.00	0.80	1.20	6.00
Office of the State Treasurer	–	–	0.30	0.30
Public Service Commission	3.00	–	2.50	5.50
State Fair Park	1.80	–	–	1.80
State Historical Society	–	–	0.75	0.75
State Public Defender	–	0.60	–	0.60
Total	20.95	35.35	112.05	168.35

¹ As modified by 2005 Wisconsin Act 468 for the Department of Veterans Affairs.

² Eliminated under 2007 Wisconsin Act 20, which created the Department of Health Services and the Department of Children and Families.

Appendix 3

Amounts Lapsed by State Agencies under the ACE Initiative¹
2005-07 Biennium

Agency	Amount	Percentage of Total
Department of Corrections	\$11,879,600	33.7%
Department of Health and Family Services ²	5,310,000	15.1
Department of Transportation	4,561,100	13.0
DOA	3,745,200	10.6
Department of Workforce Development	2,988,400	8.5
Department of Tourism	1,661,300	4.7
Department of Natural Resources	1,444,300	4.1
Department of Revenue	633,500	1.8
Department of Financial Institutions	469,600	1.3
Department of Commerce	438,600	1.2
Department of Justice	372,300	1.1
Department of Agriculture, Trade and Consumer Protection	345,900	1.0
Office of the Commissioner of Insurance	336,100	1.0
Department of Regulation and Licensing	299,300	0.8
Department of Public Instruction	299,100	0.8
Office of the State Treasurer	121,100	0.3
Department of Veterans Affairs	82,700	0.2
Department of Military Affairs	59,600	0.2
State Fair Park	57,600	0.2
Elections Board ³	43,100	0.1
Office of State Public Defender	35,200	0.1
State Historical Society	11,300	<0.1
Office of State Employment Relations	6,000	<0.1
Employee Trust Funds	3,800	<0.1
Educational Communications Board	3,300	<0.1
Office of the Governor	3,200	<0.1
Higher Educational Aids Board	2,000	<0.1
Office of the Secretary of State	1,200	<0.1
Ethics Board ³	600	<0.1
State Lab of Hygiene	500	<0.1
Office of the Lieutenant Governor	400	<0.1
Total	\$35,215,900	100.0%

¹ Includes a \$724,900 lapse associated with the elimination of attorney positions.

² Eliminated under 2007 Wisconsin Act 20, which created the Department of Health Services and the Department of Children and Families.

³ Eliminated under 2007 Wisconsin Act 1, which created the Government Accountability Board.

Appendix 4

ACE Initiative Purchasing Contracts

Computer Peripherals

Contract Type: Goods

Start Date: September 2005

Expenditures under Computer Peripherals Contract Through FY 2007-08

	FY 2005-06 ¹	FY 2006-07	FY 2007-08	Total
State Agencies	\$ 851,300	\$1,953,200	\$1,765,200	\$ 4,569,700
UW System	1,022,400	3,083,000	2,822,900	6,928,300
Total	\$1,873,700	\$5,036,200	\$4,588,100	\$11,498,000

¹ Includes expenditures for only a part of the fiscal year.

Vendors Paid under Computer Peripherals Contract Through June 2008

	Amount
MNJ Technologies Direct, Inc.	\$ 4,859,900
Insight Public Sector, Inc.	4,198,500
AVI Systems, Inc.	1,208,100
Digital Intelligence Systems Corporation	662,500
BIT360, Inc.	569,000
Total	\$11,498,000

Consulting and Accounting Services

Contract Type: Services

Start Date: October 2006

Expenditures under Consulting and Accounting Services Contract Through FY 2007-08

	FY 2006-07 ¹	FY 2007-08	Total
State Agencies	\$299,600	\$686,400	\$ 986,000
UW System	18,500	8,700	27,200
Total	\$318,100	\$695,100	\$1,013,200

¹ Includes expenditures for only a part of the fiscal year.

Vendors Paid under Consulting and Accounting Services Contract Through June 2008

	Amount
The Management Group, Inc.	\$ 422,800
Marci S. Katz & Associates, LLC	211,800
Hornby Zeller Associates, Inc.	120,100
Heartland Information Research, Inc.	110,300
APS Healthcare, Inc.	88,000
ALG, Inc.	30,400
Jefferson Wells, Inc.	29,800
Total	\$1,013,200

Copiers and Fax Machines

Contract Type: Goods

Start Date: August 2005

Expenditures under Copiers and Fax Machines Contract Through FY 2007-08

	FY 2005-06 ¹	FY 2006-07	FY 2007-08	Total
State Agencies	\$ 807,000	\$1,036,300	\$1,033,200	\$2,876,500
UW System	195,400	413,400	773,500	1,382,300
Total	\$1,002,400	\$1,449,700	\$1,806,700	\$4,258,800

¹ Includes expenditures for only a part of the fiscal year.

Vendors Paid under Copiers and Fax Machines Contract Through June 2008

	Amount
Lanier, Inc.	\$1,733,800
Ricoh Business Solutions, Inc.	1,328,000
Gordon Flesch Company	685,900
Sharp Electronics Corporation	240,800
Corporate Express, Inc.	180,400
Xerox Corporation	68,700
Kubichek Office Products, Inc.	18,700
IKON Office Solutions, Inc.	2,500
Total	\$4,258,800

Disposable Food Service Items

Contract Type: Goods

Start Date: October 2006

Expenditures under Disposable Food Service Items Contract Through FY 2007-08

	FY 2006-07 ¹	FY 2007-08	Total
State Agencies	\$ 0	\$552,500	\$ 552,500
UW System	58,200	439,500	497,700
Total	\$58,200	\$992,000	\$1,050,200

¹ Includes expenditures for only a part of the fiscal year.

Vendors Paid under Disposable Food Service Items Contract Through June 2008

	Amount
Clark Products, Inc.	\$ 599,600
Sysco Corporation	279,800
Boelter, Inc.	155,300
H. Derksen & Sons Company	15,500
Total	\$1,050,200

Fleet Vehicle Maintenance

Contract Type: Services

Start Date: May 2006

Contract expenditure data are unavailable from DOA.

**Expenditures under Food Contract
Through FY 2007-08**

	FY 2005-06 ¹	FY 2006-07	FY 2007-08	Total
State Agencies	\$5,127,700	\$16,770,600	\$18,628,300	\$40,526,600
UW System ²	0	0	0	0
Total	\$5,127,700	\$16,770,600	\$18,628,300	\$40,526,600

¹ Includes expenditures for only a part of the fiscal year.

² UW System has been granted a waiver by DOA to purchase food products under its own contracts. For example, UW-Madison has 22 food and beverage contracts.

**Vendors Paid under Food Contract
Through June 2008**

	Amount
Indianhead Foodservice Distributor	\$36,814,400
UW Provision Company, Inc.	2,244,000
AJ Sweet of Madison, Inc.	1,190,400
Torke Coffee Roasting Company	277,800
Total	\$40,526,600

**Expenditures under IT Services Contract
Through FY 2007-08**

	FY 2005-06 ¹	FY 2006-07	FY 2007-08	Total
State Agencies	\$18,482,300	\$30,748,300	\$28,974,800	\$78,205,400
UW System	554,000	275,300	928,400	1,757,700
Total	\$19,036,300	\$31,023,600	\$29,903,200	\$79,963,100

¹ Includes expenditures for only a part of the fiscal year.

**Top Five Vendors Paid under IT Services Contract
Through June 2008**

	Amount
Synergy Consortium Services, LLC	\$ 6,834,600
Compuware Corporation	5,625,900
TEK Systems, Inc.	4,603,000
Omni Resources, Inc.	4,379,400
Smart Solutions, Inc.	2,766,600
Total	\$24,209,500

Janitorial Supplies

Contract Type: Goods

Start Date: December 2005

Expenditures under Janitorial Supplies Contract Through FY 2007-08

	FY 2005-06 ¹	FY 2006-07	FY 2007-08	Total
State Agencies	\$1,065,100	\$1,847,300	\$2,291,000	\$5,203,400
UW System	398,500	1,122,500	1,457,500	2,978,400
Total	\$1,463,600	\$2,969,800	\$3,748,500	\$8,181,800

¹ Includes expenditures for only a part of the fiscal year.

Vendors Paid under Janitorial Supplies Contract Through June 2008

	Amount
Ecolab, Inc.	\$3,628,800
Kranz, Inc.	2,901,900
Schilling Supply Company, Inc.	703,700
City Supply Corporation	675,300
Corporate Express, Inc.	272,100
Total	\$8,181,800

Maintenance, Repair, and Operations Supplies

Contract Type: Goods

Start Date: December 2006

Expenditures under Maintenance, Repair, and Operations Supplies Contract Through FY 2007-08

	FY 2006-07 ¹	FY 2007-08	Total
State Agencies	\$1,096,100	\$3,003,100	\$4,099,300
UW System	997,000	2,507,900	3,504,900
Total	\$2,093,100	\$5,511,000	\$7,604,200

¹ Includes expenditures for only a part of the fiscal year.

Vendors Paid under Maintenance, Repair, and Operations Supplies Contract Through June 2008

	Amount
Grainger, Inc.	\$3,711,000
Neher Electric Supply, Inc.	1,693,100
First Supply, LLC	1,311,400
MSC Industrial Supply Company, Inc.	588,000
Columbia Pipe & Supply Company, Inc.	173,500
Hagemeyer North America, Inc.	127,200
Total	\$7,604,200

Office Furniture

Contract Type: Goods

Start Date: October 2006

Expenditures under Office Furniture Contract Through FY 2007-08

	FY 2006-07 ¹	FY 2007-08	Total
State Agencies	\$ 628,900	\$ 4,547,400	\$ 5,176,300
UW System	1,531,900	6,235,000	7,766,900
Total	\$2,160,800	\$10,782,400	\$12,943,200

¹ Includes expenditures for only a part of the fiscal year.

Top Five Vendors Paid under Office Furniture Contract Through June 2008

	Amount
Badger State Industries ¹	\$ 9,206,600
Blackhawk Company	844,600
Target Commercial Interiors, Inc.	771,900
Interior Investments, LLC	681,800
Lerdahl Business Interiors, Inc.	514,300
Total	\$12,019,200

¹ Badger State Industries, Wisconsin's prison industries program, is a preferred vendor under the furniture contract. Section 16.75(3t), Wis. Stats., requires state agencies and UW System to purchase products from Badger State Industries if the price is comparable to other vendors' prices.

Office Supplies

Contract Type: Goods

Start Date: November 2005

Expenditures under Office Supplies Contract Through FY 2007-08

	FY 2005-06 ¹	FY 2006-07	FY 2007-08	Total
State Agencies	\$2,855,300	\$ 6,054,800	\$ 5,610,400	\$14,520,500
UW System	4,459,400	8,962,400	9,177,800	22,599,600
Total	\$7,314,700	\$15,017,200	\$14,788,200	\$37,120,100

¹ Includes expenditures for only a part of the fiscal year.

Vendors Paid under Office Supplies Contract Through June 2008

	Payments
Office Depot	\$26,958,300
XPEDX, Inc.	9,439,900
LaserSharp, Inc.	721,900
Total	\$37,120,100

Printers

Contract Type: Goods

Start Date: May 2007

Expenditures under Printers Contract Through FY 2007-08

	FY 2006-07 ¹	FY 2007-08	Total
State Agencies	\$144,500	\$ 436,000	\$ 580,500
UW System	91,300	2,555,500	2,646,800
Total	\$235,800	\$2,991,500	\$3,227,300

¹ Includes expenditures for only a part of the fiscal year.

Vendors Paid under Printers Contract Through June 2008

	Amount
Dell, Inc.	\$2,338,300
Vanguard Computers, Inc.	564,000
Paragon Development Systems, Inc.	198,900
Insight Public Sector, Inc.	57,900
Inacom Information Systems, Inc.	46,600
Xerox Corporation	15,200
Ricoh Business Solutions, Inc.	6,400
Total	\$3,227,300

**Expenditures under Software Contract
Through FY 2007-08**

	FY 2005-06 ¹	FY 2006-07	FY 2007-08	Total
State Agencies	\$5,072,900	\$10,564,400	\$10,229,700	\$25,867,000
UW System	360,800	1,056,400	954,600	2,371,800
Total	\$5,433,700	\$11,620,800	\$11,184,300	\$28,238,800

¹ Includes expenditures for only a part of the fiscal year.

**Vendors Paid under Software Contract
Through June 2008**

	Amount
Insight Public Sector, Inc.	\$17,592,200
Software House International, Inc.	4,136,200
ASAP Software Express, Inc.	3,130,400
CDW Government, Inc.	2,867,100
Digital Information Services, LLC	512,900
Total	\$28,238,800

Temporary Staffing Help

Contract Type: Services

Start Date: July 2006

Expenditures under Temporary Staffing Help Contract Through FY 2007-08

	FY 2006-07	FY 2007-08	Total
State Agencies	\$ 906,700	\$1,133,400	\$2,040,100
UW System	100,100	91,600	191,700
Total	\$1,006,800	\$1,225,000	\$2,231,800

Vendors Paid under Temporary Staffing Help Contract Through June 2008

	Amount
Hiring & Staff Service, Inc.	\$1,200,300
Data Shop, Inc.	855,600
Di & Associates, Inc.	101,300
National Business Systems, Inc.	43,200
Staff One, Ltd.	21,500
TempsPlus Staffing, Inc.	9,900
Total	\$2,231,800

Appendix 5

Potential Overpayments to Vendors¹

September 2005 through June 2008

Vendor	Amount
IT Services Contract	
TransTech, LLC	\$ 99,600
Compuware Corporation	35,400
Spherion, Inc.	32,000
COMSYS IT Partners, Inc.	30,800
bit360, Inc.	27,500
TEK Systems, Inc.	20,100
Symphony Corporation	18,700
Synergy Consortium Services, LLC	16,600
Dragon Technology Solutions, LLC	10,700
IO Datasphere, Inc.	10,600
Sentinel Technologies, Inc.	9,300
Princeton Information, Ltd.	8,400
Beechwood Computing, Ltd.	6,600
Paragon Development Systems, Inc.	6,300
Omni Resources, Inc.	4,600
Team Soft, Inc.	4,500
Smart Solutions, Inc.	3,900
CIBER, Inc.	3,900
Viva USA, Inc.	3,200
Comprehensive Computer Consulting, Inc.	3,000
Kforce, Inc.	2,800
Enterprise Solutions Technology Group, Inc.	2,000
Keystone Consulting, Inc.	600
Stratagem, Inc.	500
Subtotal	361,600
Temporary Staffing Help Contract	
Hiring and Staff Services, Inc.	24,000
Staff One, Ltd.	5,500
Data Shop, Inc.	2,300
Di & Associates, Inc.	2,000
TempsPlus Staffing Services, Inc.	100
Subtotal	33,900
Consulting and Accounting Services Contract	
The Management Group, Inc.	600
Total	\$396,100

¹ Potential overpayments reflect the difference between the hourly charges reflected in vendors' reports to DOA and the maximum rates allowed under the contracts.

Appendix 6

Surplus Property Identified by DOA and Equis

State Agency Owning the Property	Property	Location	Net Sale Proceeds	Purchaser
DOA	Administration Building	Madison	-	-
DOA	Brayton Street Parking Lot	Madison	-	-
DOA	Central Services Building	Madison	-	-
DOA	Hill Farms Building	Madison	-	-
DOA	Monona Terrace Parking Ramp	Madison	-	-
DOA	State Office Building	Eau Claire	-	-
DOA	State Office Building	Green Bay	-	-
DOA	State Office Building	La Crosse	-	-
DOA	State Office Building	Milwaukee	-	-
DOA	State Office Building	Waukesha	-	-
DOA	State Office Building	Wisconsin Rapids	-	-
Department of Corrections	Parcel of Vacant Farmland	Brown County	\$1,526,100	Oneida Tribe of Indians of Wisconsin
Department of Corrections	Parcel of Land	Sturtevant	260,300	Private Developer
Department of Corrections	Sanger Powers Correctional Center— Parcel of Vacant Farmland	Oneida County	7,610,600	Oneida Tribe of Indians of Wisconsin
Department of Corrections	Waupun Correctional Farm— Parcel of Land	Waupun	-	-
Educational Communications Board	Educational Communications Board Building	Madison	-	-
Department of Health Services	Sand Ridge Secure Treatment Center— Parcel of Land	Mauston	-	-
Department of Health Services	Southern Wisconsin Center— Parcel of Land #1	Dover	-	-
Department of Health Services	Southern Wisconsin Center— Parcel of Land #2	Dover	-	-
Department of Health Services	Winnebago Mental Health Institute— Parcel of Vacant Land	Winnebago County	-	-

State Agency Owning the Property	Property	Location	Net Sale Proceeds	Purchaser
Department of Natural Resources	Northeast Regional Headquarters	Green Bay	-	-
Department of Natural Resources	Ranger Station	Merrill	-	-
Department of Natural Resources	Southeast Regional Headquarters	Milwaukee	-	-
Department of Transportation	Driver License Center	Onalaska	-	-
Department of Transportation	Parcel of Land	Green Bay	-	-
Department of Transportation	Parcel of Land	Rhineland	\$197,400	U.S. Forest Service
Department of Transportation	Parcel of Land	Verona	-	-

Appendix 7

Status of the Server Consolidation Project
Through June 2009

Completed	Ongoing	Not Yet Begun
<p>DOA</p> <p>Department of Agriculture, Trade and Consumer Protection</p> <p>Department of Natural Resources</p> <p>Department of Revenue</p> <p>Educational Communications Board</p> <p>Office of the State Treasurer</p> <p>State Fair Park</p>	<p>Department of Commerce</p> <p>Department of Corrections</p> <p>Department of Financial Institutions</p> <p>Department of Health and Family Services¹</p> <p>Department of Regulation and Licensing</p> <p>Department of Transportation</p> <p>Department of Workforce Development</p> <p>Department of Tourism</p> <p>Office of the Commissioner of Insurance</p> <p>Public Service Commission</p>	<p>Employee Trust Funds</p> <p>Department of Public Instruction</p>

¹ Eliminated under 2007 Wisconsin Act 20, which created the Department of Health Services and the Department of Children and Families.



**WISCONSIN DEPARTMENT OF
ADMINISTRATION**

JIM DOYLE
GOVERNOR
MICHAEL L. MORGAN
SECRETARY

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September 9, 2009

Ms. Janice Mueller, State Auditor
Legislative Audit Bureau
22 East Mifflin Street, Suite 500
Madison, WI 53703

Dear Ms. Mueller:

Statutorily the biennial budget bill, 2005 Wisconsin Act 25, required state agencies to achieve a \$35.5 million lapse during the 05-07 Biennium. It was anticipated that the cost savings of the efficiency initiatives would assist state agencies in achieving their lapses. These dollars were lapsed and as the audit notes, savings were realized. In the 07-09 Biennium the \$35.5 lapse was replaced by lapses totaling \$508 million. Under 2009 Wisconsin Act 28, state agencies will lapse \$641.8 million during the 09-11 Biennium.

Four years and over a billion dollars in lapses later, DOA continues to refine and improve on these efficiency initiatives:

- DOA has worked to leverage the state's purchasing power to obtain lower prices for commodities and services. Through the fourteen contracts bid under the first efficiency effort, we achieved \$36.9 million in savings on commodity and service purchases. DOA will continue to use state purchasing power to obtain the lowest price possible.
- IT consolidation efforts were addressed in the April 2007 Legislative Audit Bureau Report. Since that time DOA has revised implementation and operational budgets and timelines for these projects, and is on track to meet these goals. DOA has also implemented comprehensive IT management standards for all high profile IT projects across state government.
- DOA successfully provides human resources services to seven state agencies and purchasing services for sixteen state agencies.

DOA takes very seriously its responsibility to work with the relevant oversight committees in the Legislature on the efficiency efforts that were the subject of this Legislative Audit Bureau evaluation, as well as many other efforts to make government more efficient while maintaining quality services. We look forward to continuing our partnership with these legislative oversight committees, especially in these challenging budgetary times.

Sincerely,

Daniel J. Schooff
Deputy Secretary of Administration