

**Report on Findings from
Forensic Examination of specific issues at
the Utah Division of Purchasing**

April 26, 2013

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April 26, 2013

Executive Director's Office
Department of Administrative Services
3120 State Office Building
Salt Lake City, Utah 84114

Dear Executive Director's Office:

Sage Forensic Accounting, Inc. ("Sage") has been retained to perform a forensic examination or audit of specific issues at Utah Division of Purchasing ("UDP" or "Division"). Specifically, Sage has been asked to conduct an investigation and answer questions about allegations that have been made against UDP. This report details the results of our investigation into certain relationships between entities and individuals. In particular, this report will focus on answering the following questions:

1. What is the relationship between UDP and Western States Contracting Alliance ("WSCA")?
2. What is Kent Beers' (Utah director of purchasing) relationship with WSCA?
3. How was Kent Beers voted in as President of WSCA?
4. Is there a financial benefit to Kent Beers from his work with WSCA?
5. What services does WSCA provide to receive a fee from vendors?
6. How and why did WSCA become an LLC?

This report outlines the results of our analysis and presents the opinions and conclusions reached therefrom. If additional information becomes available that we deem relevant to the scope of this engagement, Sage reserves the right to modify or supplement this report and the resultant findings accordingly. This report should be considered confidential and is not to be used for any purpose other than that necessary to properly address the allegations prompting this examination.

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This assignment required developing an understanding of the organizational structure of various entities as well as the roles and responsibilities of various individuals. Acquiring this level of detail required various entities and individuals to submit documents and information to Sage. Sage has limited means of ensuring that the information supplied by the various entities or individuals is accurate and complete. Accordingly, the reliability of our analysis is limited to the reliability of the information supplied to us, which is detailed later in this report.

I. Evaluation of the relationship between UDP and WSCA

To fully understand the relationship between UDP and WSCA, a general understanding of the purpose and function of each is necessary.

A. Overview of UDP

The following excerpt provides an overview of UDP:

The Division of Purchasing and General Services consists of the state's "corporate" purchasing function and three programs that provide general services that operates as internal service funds. The mission of the Division of Purchasing & General Services is to provide best value goods and services. The core purchasing function is funded by the general fund while the internal service funds charge the end users for the services and products. The ISF rates are all approved first by the Executive Branch rate committee, and then by the Legislature.¹

In addition to acting as the centralized procurement arm for the State of Utah, using a regulated, competitive process, the beneficial contracts obtained by UDP may also be utilized by the numerous political subdivisions within the state. The ability for other entities to join on to State contracts is referred to as cooperative purchasing. The following excerpt provides a brief overview:

Utah statutes provide that statewide contracts administered by the Division may be extended to political subdivisions. Examples of political subdivisions are: state colleges and universities, school districts, municipalities, counties, etc. Whenever these entities elect to purchase under a statewide contract, they are not required to obtain additional bids and contact the contract vendor directly. When utilizing these contracts, the governmental entities are responsible for issuing the purchase order and processing payment.²

Accordingly, while UDP is an agency of the State of Utah, the benefits of its services are available to many additional entities within the State. The basic premise behind cooperative

¹ Service Plan of the Division of Purchasing and General Services, Fiscal Year 2013.

² Vendor Guide to Doing Business with the State of Utah, July 2009.

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purchasing is straightforward: joining together to realize the economic benefits associated with high volume purchasing. These economic benefits can include, among other factors, better pricing, more favorable terms, and/or better conditions. For example, if a small municipality wants to purchase a single police vehicle outside of a cooperative contract, its purchasing power may be limited to similar agreements available to the average consumer. But through cooperative purchasing it can utilize better pricing or more favorable terms generated by a state contract through which vehicles for all the various law enforcement fleets are obtained. Attached in Exhibit 1 is a flow chart UDP provides to help agencies with purchasing decisions.

Similar to the above intra-state cooperative purchasing, there exists multi-state cooperatives as well. The following excerpts notes Utah's participation in such:

Utah also participates in multi-state cooperative purchasing with the Western States Contracting Alliance (WSCA), the National Association of State Procurement Officials (NASPO) and the Minnesota Multi-State Cooperative for Pharmacy (MMCAP).³

Since certain goods and services are needed by all states, the combination of the buying power of multiple states further enhances the economic benefits achievable under the cooperative purchasing model.

B. Overview of WSCA

The following excerpt provides an overview of WSCA:

Since 1993, the Western States Contracting Alliance (WSCA) served as the primary cooperative purchasing arm of NASPO and encouraged, fostered, and guided participating members to work collaboratively in an effort to create true procurement cooperatives. WSCA-NASPO represents a unified, nationally-focused cooperative purchasing program that will leverage the collective expertise and experience of WSCA and NASPO, aggregate the demand of all 50 states, the District of Columbia and the five organized territories, and their political subdivisions and other eligible entities, and help spur innovation and competition in the marketplace.⁴

As indicated, the Western States Contracting Alliance (WSCA) was established as a cooperative procurement program of the National Association of State Procurement Officials ("NASPO"). The Agreement of Understanding establishing WSCA was entered into by a coalition of states in March 1992. The scope and purpose of WSCA as stated in that Agreement was as follows:

formed to standardize and consolidate state requirements for materials, equipment and services, and to cooperatively contract for such requirements

³ Vendor Guide to Doing Business with the State of Utah, July 2009.

⁴ <http://www.aboutwsca.org>

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to establish a method by which participating states may join together in cooperative multi-state contracting and to ensure the commitment of each participating state⁵

The Agreement provides a line for signature by Douglas Richins on behalf of the State of Utah. The signature line is blank, but it is understood an executed copy did exist on which Utah signed. In addition, as will be detailed later, this document has been superseded.

In March 1997 NASPO submitted to the Internal Revenue Service (“IRS”) a request for a ruling regarding the fees that it was receiving for administration of cooperating purchasing contracts. On January 13, 1998, the IRS issued a letter ruling which included the following reference to the WSCA program:

Certain States whose purchasing officials are members of [NASPO] have joined to establish cooperative purchasing groups to achieve economies of scale and reduce costs.⁶

Based upon the information that NASPO had submitted, the IRS ruled as follows:

1. The administration of the cooperative purchase contracts by [NASPO] through contracting to States will be considered an activity in furtherance of an exempt purpose described in section 501 (c) (3) of the Code; and
2. The administrative activity will be substantially related to [NASPO's] exempt purpose under section 501 (c) (3) and the administrative fee will not be classified as income from an unrelated trade or business under section 513.⁷

In September 2007, a Memorandum of Agreement for WSCA was entered into. Among other things, the Agreement states the following:

In 1992 the states of Alaska, Arizona, California, Colorado, Hawaii, Idaho, Minnesota, Montana, Nebraska, Nevada, New Mexico, Oregon, South Dakota, Utah, Washington and Wyoming entered into a cooperative agreement establishing WSCA. The purpose of this document is to reaffirm and refine the cooperating purchasing agreement.⁸

The purpose of the alliance is to consolidate state requirements for materials, equipment and services and to cooperatively contract for such requirements. WSCA is a subsidiary of NASPO.⁹

This Memorandum of Agreement does not commit Participating States to expenditure of any public funds.¹⁰

⁵ WSCA Agreement of Understanding, March 1992, p. 1.

⁶ IRS Letter, January 13, 1998, p. 1.

⁷ IRS Letter, January 13, 1998, p. 4.

⁸ Memorandum of Agreement, September 2007, p. 3.

⁹ Memorandum of Agreement, September 2007, p. 3.

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Participation in WSCA and any specific cooperative procurement is voluntary.¹¹

The September 2007 Agreement was executed by the signature of Douglas Richins as the chief procurement officer for the State of Utah. The reference to Utah in the list of states further supports that Utah signed the 1992 document noted previously.

As indicated above, WSCA is a program of NASPO. Accordingly, background information related to NASPO is also relevant and is presented in the following paragraphs.

NASPO was formally established on January 29, 1947, in Chicago, Illinois.¹² Initially the organization was known as the National Association of State Purchasing Officials, Inc. Later, its name was changed to the National Association of State Procurement Officials, Inc. Presently, NASPO is a Kentucky non-profit corporation, registered in that state in 1993.¹³ NASPO files an annual Form 990 return with the IRS, which is the Return of Organization Exempt From Income Tax.

Upon review of NASPO's Form 990 tax filings and internal financial records from both NASPO and WSCA we were able to trace a consolidation of both WSCA's and NASPO's internal financials for the years 2007 through 2011 to NASPO's Form 990 tax filings for each of the corresponding years.¹⁴ This consolidation of NASPO's and WSCA's financial information further demonstrates WSCA is a program within NASPO.

Based upon our investigation, we have determined that UDP is the division where the "chief procurement officer" for the State of Utah is found. At all times since the establishment of WSCA in 1992 UDP has been a member of WSCA through execution of an Agreement by Utah's chief procurement officer. As a member, UDP is able to participate in several multi-state contracts that are for the purchase of goods and services on behalf of the State of Utah. This participation has included UDP taking the lead on the procurement, as well as benefiting from the procurement efforts undertaken in other states.¹⁵ Every contract that is referred to as a WSCA contract is a multi-state contract. Meaning, the buying powers of several states are pooled together in procuring the contract. However, each state participating in a WSCA contract enters into its own participating addendum with the vendor which includes any personalization for that state.

¹⁰ Memorandum of Agreement, September 2007, p. 3.

¹¹ Memorandum of Agreement, September 2007, p. 5.

¹² <http://www.naspo.org/content.cfm/id/background>

¹³ Verified at ky.gov

¹⁴ Copies of NASPO's Form 990 tax filings for the years 2007-2011 were retrieved from GuideStar, an online database for nonprofit organizational documents and information.

¹⁵ No matter which state's purchasing group takes the lead in a procurement, each state still must be engaged in the process to ensure all relevant procurement laws in the state are adhered to.

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II. Evaluation of Kent Beers' relationship with WSCA and how he was voted in

The basic organization of NASPO's management is a President, President-Elect, Finance Chair, and a group of eight Directors. WSCA-NASPO (formerly WSCA) is comprised of a Management Board Chair, Management Board Vice-Chair, Management Board Treasurer, and a Cooperative Development Team (CDT) of six.

The six member CDT team from various WSCA member states is responsible to "support the WSCA and NASPO cooperative contracting efforts." This team supports "all aspects of the cooperative contracting efforts" in order to relieve state cooperative contract leads of the burden and to "provide facilitation, guidance and mentoring to state procurement staffs."¹⁶

Kent Beers is the Director and Chief Procurement Officer for the State of Utah's Division of Purchasing & General Services. As indicated above, Utah is a member of WSCA and it is our understanding that membership allows the chief procurement officer of any member state to be elected as an officer of WSCA. Officers of WSCA are elected by a majority vote of the membership with each member state having equal voting rights¹⁷. Presently Kent is the Management Board Chair of WSCA-NASPO¹⁸.

Paul Mash is a Director of NASPO and the Assistant Director & Deputy Chief Procurement Officer for the State of Utah's Division of Purchasing & General Services.

III. Investigation of any financial benefit to Kent Beers from his work with WSCA

Kent provided us copies of his personal Form 1040 IRS tax filings for the years 2009 through 2012, and pay information for 2008 and 2011. Kent became the Director & Chief Procurement Officer for the State of Utah's Division of Purchasing & General Services on November 3, 2008. We did not find any indications that Kent is receiving any remuneration from WSCA, NASPO, or WSCA-NASPO.

In addition to reviewing items received from Kent, we also received reports from Jack Gallt,¹⁹ identifying all amounts paid to Mr. Beers. The reports identified the following expense reimbursement amounts paid to Kent:

1. \$378.20 on July 22, 2009 – "reimbursement for travel to directors meeting"

¹⁶ NASPO Cooperative Purchasing Organization, "WSCA-NASPO Cooperative Effort Solicitation and Master Agreement Checklist," March 10, 2013, p. 1.

¹⁷ Memorandum of Agreement, September 2007.

¹⁸ WSCA-NASPO is a DBA name of new entity established on October 10, 2012, to operate the WSCA program, additional details on WSCA-NASPO is one of the specific tasks of Sage's assignment, and is therefore presented in a later section of this report.

¹⁹ Mr. Gallt is the NASPO Executive Director and is employed with AMR Management Services.

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2. \$388.70 on October 8, 2009, "NASPO 09 Annual Meeting travel exp reimb"
3. \$33.77 on June 29, 2011, "Reimbursement for contract compliance sourcing team dinner"
4. \$54.00 on July 13, 2011, "rental car reimbursement up to shuttle cost"

Through our investigation we have determined that the State of Utah has received reimbursements and grants from NASPO. The following chart summarizes the total that the State of Utah has received:

Fiscal Year	Total Reimbursements to the State of
2009	\$100,089
2010	\$186,535
2011	\$355,693
2012	\$513,040
2013	\$728,239
Total	\$1,883,597

The amounts reimbursed are for time and expenses related to several individuals, including Kent. However, these amounts go the State of Utah not to Kent.

Further, The Operating Agreement of NASPO Cooperative Purchasing Organization, LLC (WSCA-NASPO) effective January 1, 2013, specifically states the following:

no part of the assets or net earnings of the Organization shall inure to the benefit of or be distributable to its organizer, managers, directors, officers, or other private persons having a personal or private interest in the Organization, except that the Organization shall be authorized and empowered to pay reasonable compensation for services actually rendered and to make payments and distributions in furtherance of the purposes and objects set forth in [the Operating Agreement]²⁰.

The Operating Agreement goes on to state the following regarding compensation:

The salaries and other compensation of the Managers, Officers, and key employees shall be established from time to time by majority vote of the Managers and subject to the final approval of the NASPO Board of Directors.²¹

²⁰ NASPO Cooperative Purchasing Organization, LLC Operating Agreement, December 20, 2012, p. 2.

²¹ NASPO Cooperative Purchasing Organization, LLC Operating Agreement, December 20, 2012, p. 5.

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Based upon the above, there is no indication that Kent has received any financial benefits from his work with WSCA and related entities. The Operating Agreement allows for compensation upon a majority vote of the managers as well as NASPO Board approval. Further, standard restrictions on assets and earnings of charitable organizations exist that prevent Kent from benefitting in that manner. Accordingly, while there has been no compensation to date, we believe proper checks and balances exist to ensure any remuneration that may be provided in the future is proper.

IV. Evaluation of the services that WSCA provides for the fee it receives from vendors

WSCA's main benefit to state procurement is its ability to offer better pricing, more favorable terms, and/or better conditions through its cooperative contracts. Sage has been provided and reviewed multiple studies and benchmark analyses that confirm this. A WSCA/NASPO benchmark analysis completed in March 2013 found that in most cases WSCA contracts have over 15 percent better pricing than single state contracts on office furniture.²² A KPMG benchmark analysis showed WSCA to have better discounts in most of the areas analyzed stating: "WSCA is a strong, competitive contract, that clearly wins against the other states and cooperatives in many categories for both minimum and maximum discounts."²³

New WSCA cooperative contract opportunities begin the same as an intrastate cooperative contract begins. A member state identifies a purchasing need that is needed not only statewide but potentially on a multi-state basis. These contracts are then discussed through monthly conference calls by regional procurement officials. If a good multi-state opportunity is identified the WSCA-NASPO Management Board is notified and a survey is developed by the CDT. This survey is sent to all WSCA-NASPO directors to determine the amount of interest in a cooperative contract.

If enough interest is generated, a lead state is identified based on specific contract expertise and the Management Board is notified for approval. The procurement team is organized, with instruction from WSCA-NASPO, to "develop a request for proposals, solicit bids, and coordinate the vendor selection process."²⁴ As the lead state conducts the bid in its own state, WSCA coordinates the bids with all other states typically even including the states that did not express interest.²⁵ The lead state essentially enters into an agreement with the vendor on behalf of itself and the other participating States.

²² WSCA/NASPO Benchmark Analysis, March 2013, p. 1.

²³ KPMG, Western States Contracting Alliance Office Furniture Benchmarking Report, October 16, 2012, p. 12.

²⁴ Memorandum from Webster, Chamberlain & Bean, LLP, December 19, 2011, p. 2.

²⁵ WSCA attempts to involve all states in the bidding process, even if they did not express interest in the contract, because history has shown states regularly change their minds and want to participate.

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Once a contract is approved the Management Board approves a sourcing team comprised of a “mix of subject matter experts and procurement experts from multiple member states.”²⁶ The sourcing team will make contract detail recommendations to the lead state throughout the life of the contract. A solicitation document is then developed with bid information and sent to all member states.

WSCA serves as a facilitator with regard to the relationships and communications between individual member states as well as the members’ relationships and communications with vendors.

WSCA also serves as an administrator and advisor to lead states regarding the development and maintenance of each cooperative contract. WSCA tracks the contract usage and performs contract audits.

Another key service provided by WSCA-NASPO is the e-Procurement Solutions/eMarket Center Project. This online based shopping tool aggregates all member purchasing agreements and their contracted vendors into an online database accessible to all member states. From this service members have access to all negotiated contracts, can shop from multiple suppliers, and can search for specific items from the database.

A portion of funds received from vendors is used for management oversight and maintenance of the e-Procurement Solutions/eMarket Center Project.

The revenue generated by the WSCA program increased each year starting in 2007 through 2011. WSCA’s assets also increased during that time period. The chart below summarizes the financials of NASPO and the WSCA program for the period 2007 through 2011.²⁷

	2007	2008	2009	2010	2011
WSCA Program Contracts	N/A	61	86	114	132
WSCA Program Contract Sales	N/A	\$4,895,549,343	\$5,087,255,547	\$6,254,309,925	\$7,125,246,456
Revenues					
WSCA Program	\$2,798,157	\$3,368,511	\$4,214,263	\$6,500,889	\$7,675,715
Other NASPO	\$1,629,608	\$1,575,385	\$1,365,776	\$3,395,335	\$3,786,178
Net Assets					
WSCA Program	\$6,836,653	\$8,602,180	\$12,352,429	\$16,387,918	\$19,006,524
Other NASPO	\$1,633,588	\$1,774,709	\$1,719,907	\$2,386,510	\$3,093,193

²⁶ NASPO Cooperative Purchasing Organization, “WSCA-NASPO Cooperative Effort Solicitation and Master Agreement Checklist,” March 10, 2013, p. 3.

²⁷ Financial data retrieved from WSCA’s internal financial compilations for the years 2007-2011; Contract information retrieved from WSCA’s Contract Reporting Master Spreadsheet for the years 2007-2011.

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Based upon the recommendations of the Cooperative Purchasing Governance Work Group, established by NASPO in January 2012 to evaluate the future needs of WSCA, WSCA's 2012 year-end fund balance and future earnings are to be used in the following manner: (1) To establish and maintain a Cooperative Program Defense Fund of \$3 million; (2) To support the new LLC (WSCA-NASPO); (3) To support the eMarket Center project; (4) Split the remaining balance with 50 percent going to the new LLC and 50 percent to be used based on the NASPO Board of Directors determination; (5) 50 percent of the on-going annual surpluses of the new LLC (WSCA-NASPO) should be reinvested and the remaining 50 percent used based on the NASPO Board of Directors determination.²⁸

This plan was subsequently confirmed on December 20, 2012, in the NASPO Cooperative Purchasing Organization, LLC Operating Agreement.²⁹

Generating the financial growth seen by WSCA is an increase in the number and volume of sales in multi-state contracts.³⁰ To fund WSCA and lead state procurement activities an administrative fee is charged for each WSCA contract. The following chart summarizes the administrative fees charged by WSCA compared to other cooperative purchasing organizations:³¹

Organization	Administrative Fee (Percent of Total Sales)
WSCA	Up to .5%
US Communities	1% to 2.5%
National Joint Powers Alliance	2%
Cooperative Purchasing Network	2%
Educational & Institutional Cooperative Purchasing	3%
Novation	2.10%
Minnesota Multistate Contracting Alliance for Pharmacy	Up to 3%
U.S. General Services Administration	.75% to 2.0%

According to Webster, Chamberlain & Bean, LLP, hired by NASPO to assist in tax matters relating to NASPO and its programs' activities, all administrative fees collected by WSCA are "owned entirely by NASPO."³² To maintain 501(c)(3) status those fees must be used for charitable purposes or for purposes which lessen the burden of government.³³ An example of this includes earmarked distributions to member states to be used for the purposes of managing

²⁸ Final Report and Recommendations of the NASPO Cooperative Purchasing Governance Work Group, August 10, 2012, p. 6.

²⁹ NASPO Cooperative Purchasing Organization, LLC Operating Agreement, December 20, 2012, pp. 6, 12.

³⁰ Contract information retrieved from WSCA's internal contract reporting master spreadsheet for the years 2007-2011.

³¹ Administrative fee data retrieved from each organizations website.

³² Memorandum from Webster, Chamberlain & Bean, LLP, December 19, 2011, p. 2.

³³ Memorandum from Webster, Chamberlain & Bean, LLP, December 19, 2011, p. 3.

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and administering activities relating to NASPO objectives. This may including travel and meeting expenses of the contract sourcing teams, purchasing office equipment for NASPO member state procurement offices, etc.³⁴

WSCA reimburses states for their costs relating to procuring the multi-state contracts. As noted earlier, WSCA has paid in excess of \$1.8 million to the State of Utah to reimburse it for costs incurred.

V. Investigation of how and why WSCA became a LLC

A detailed history of WSCA was provided previously in this report. WSCA was approved by the NASPO board of directors as a cooperative procurement program within NASPO to oversee and help implement western State's cooperative contracts.³⁵ Importantly, WSCA was only a program of NASPO.

By 2012 the WSCA cooperative purchasing program of NASPO had grown into a multi-billion dollar program. Due to the success and growing complexity associated with the WSCA program, concerns arose at NASPO regarding WSCA not being a legal entity. As a result, NASPO established a Cooperating Purchasing Work Group in January 2012, which included leadership from NASPO Board of Directors, the WSCA Executive Board, as well as retention of a law firm. This Work Group issued a Final Report and Recommendations, which provided the following overview:

The magnitude and success of the cooperative program and initiatives has raised governance, risk and liability, and funding issues affecting both WSCA and NASPO. The WSCA working group is the boots on the ground leading and managing the program and making the day to day tactical decisions, some of which have to then be approved by the NASPO Board of Directors. Since WSCA does not legally exist and is a part of NASPO, it is the NASPO Board of Directors that has the final risk, liability, and fiduciary accountability for the program decisions. This places the Board in a difficult decision making position not being close to the cooperative program and e-procurement project. Meeting only once a month, unless a special meeting is called, the NASPO Board is expected to ratify decisions already made by the WSCA working group timely without the benefit of due diligence on what is being approved. Lastly, since WSCA is not a legal entity should a legal action be brought against any state as the lead on a cooperative contract, it could also be brought against NASPO the "parent organization."³⁶

³⁴ Memorandum from Webster, Chamberlain & Bean, LLP, December 19, 2011, pp. 3-4.

³⁵ Memorandum from Webster, Chamberlain & Bean, LLP. 19 December 2011, p. 2

³⁶ NASPO, "Final Report and Recommendations of the NASPO Cooperative Purchasing Governance Work Group," August 2012, pp. 1-2

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As a result of these issues, the Work Group recommended that “A new separate legal entity be organized as a manager-managed, ‘pass-through’ limited liability company (‘LLC’), with NASPO as the sole member.”³⁷ The following excerpt provides some relevant information on LLC entities:

An LLC is an entity created by state statute. Depending on elections made by the LLC and the number of members, the IRS will treat an LLC either as a corporation, partnership, or as part of the owner’s tax return (a “disregarded entity”). . . . If a single-member LLC does not elect to be treated as a corporation, the LLC is a “disregarded entity,” and the LLC’s activities should be reflected on its owner’s federal tax return.³⁸

Consistent with the recommendations of the Work Group the Articles of Organization for NASPO Cooperative Purchasing Organization, LLC (“NCPO”) were filed on October 10, 2012, creating a Kentucky non-profit limited liability company. NASPO is the sole member. The Articles filed with the Kentucky Secretary of State, indicate the following purpose for NCPO:

The purpose of [NCPO] is to receive, administer, and expend funds for charitable and educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, ..., and within such limits:

1. to operate a purchasing cooperative program for public procurement officials in order to improve the quality and efficiency of the public procurement function;

[...]

[NCPO] shall operate in such a manner that its activities will not jeopardize the status of [NCPO]’s sole Member as an entity exempt from federal income tax pursuant to Section 501(c)(3) of the Code, including, without limitation, ensuring:

[...]

(iii) no part of the assets or net earnings of [NCPO] shall inure to the benefit of or be distributable to its organizer, managers, directors, officers, or other private persons having a personal or private interest in [NCPO]...³⁹

In addition, the Operating Agreement for NCPO specifically states:

Initially, [NCPO] may do business under the name “WSCA/NASPO Cooperating Purchasing Organization.” The use of the DBA name may be phased out or change based on a timeline approved by NASPO.⁴⁰

³⁷ NASPO, “Final Report and Recommendations of the NASPO Cooperative Purchasing Governance Work Group,” August 10, 2012, p. 3.

³⁸ <http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Single-Member-Limited-Liability-Companies>

³⁹ Articles of Organization of NASPO Cooperative Purchasing Organization, LLC, filed October 10, 2012.

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It is the intention of NASPO that [NCPO] be disregarded for federal and all relevant state income tax purposes and that the activities of [NCPO] are deemed to be activities of NASPO for such purposes.⁴¹

NASPO issued a press release announcing the new entity that it had formed stating the following:

The National Association of State Procurement Officials (NASPO) has formed a subsidiary entity, the WSCA-NASPO Cooperative Purchasing Organization (WSCA-NASPO), LLC to manage its national cooperative purchasing program. The LLC was formed in October of 2012 and began operating officially on January 1, 2013. A 21-member Management Board has been appointed to oversee the operations and activities of the new organization.⁴²

As indicated in the Operating Agreement and the press release, at present the NCPO entity is doing business as WSCA-NASPO Cooperative Purchasing Organization (“WSCA-NASPO”).

Based upon our investigation and the details presented above, WSCA did not technically become an LLC. Rather, NASPO decided to create a subsidiary specifically to hold the cooperative purchasing programs, which includes the WSCA program. To maintain the goodwill that the WSCA name has developed in the marketplace, the new LLC operates presently under a DBA name which includes WSCA in the title. There is a plan to eventually phase WSCA out of that name.

We have determined that NCPO was established because of the significant success of the WSCA cooperating purchasing program. As a result of its success it grew too large and complex to be simply a program of an organization.

VI. Reservation of right to supplement, revise, update and/or amend report

If additional information becomes available that Sage deems relevant to the scope of this engagement, Sage reserves the right to modify this report accordingly.

VII. Qualifications

I am the president and a shareholder of Sage Forensic Accounting, Inc. (“Sage”). I am a Certified Public Accountant (CPA). I have earned the Accredited in Business Valuation (ABV) and Certified in Financial Forensics (CFF) credentials from the American Institute of Certified

⁴⁰ NASPO Cooperative Purchasing Organization, LLC, “Operating Agreement,” December 20, 2012, p. 1.

⁴¹ NASPO Cooperative Purchasing Organization, LLC, “Operating Agreement,” 20 December 2012, p. 1

⁴² <http://www.aboutwsca.org/content.cfm/id/WSCA?CFID=12188377&CFTOKEN=a4d27500739c393b-D0434129-1F29-3240-29C157472F706C71>

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Public Accountants. I am a member of the Association of Certified Fraud Examiners and the American Society of Appraisers. I have earned the Accredited Senior Appraiser (ASA) designation from the American Society of Appraisers and the Certified Fraud Examiner (CFE) designation from the Association of Certified Fraud Examiners. I have over twenty-eight years of experience in performing forensic/investigative accounting, business valuations, economic damages, and reviewing the reports of others in my field.

My curricula vitae, which contains detailed information on my qualifications, can be obtained through Sage's website or upon request.

VIII. Documents and information considered

In addition to the documents and information footnoted or referenced throughout this report and any attached schedules, I have also reviewed the following:

1. Memorandum of Agreement for The Western States Contracting Alliance;
2. Agreement of Understanding for The Western States Contracting Alliance;
3. Final Report and Recommendations of the NASPO Cooperative Purchasing Governance Work Group;
4. IRS Acceptance Letter for NASPO's Request for 501(c)(3) Status;
5. Memorandum from Webster, Chamberlain & Bean, LLP Regarding NASPO's Use of Administrative Fees from Multi-State Cooperative Purchase Programs;
6. Memorandum from Webster, Chamberlain & Bean, LLP Regarding Additional Questions With Respect to NASPO's Use of Administrative Fees from Multi-State Cooperative Purchase Programs;
7. Articles of Organization of NASPO Cooperative Purchasing Organization, LLC;
8. Operating Agreement of NASPO Cooperative Purchasing Organization, LLC;
9. Bylaws/Articles of Organization of National Association of State Procurement Officials, Inc;
10. Grading the States: Utah;
11. NASPO's Strength in Numbers: An Introduction to Cooperative Procurements;
12. Internal Benchmark Tests Comparing WSCA/NASPO Contracts and State Contracts;

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13. KPMG Benchmarking Report for WSCA's Office Furniture Contracts;
14. Utah Legislature Letter and Response to Letter;
15. Payroll Statements for Kent Beers for Periods 2008 and 2011;
16. Form 1040 Tax Filings for Kent Beer's for Periods 2009-2012;
17. Internal Financial Statements From NASPO and WSCA for the Periods 2007-2012;
18. Form 990 Tax Filings From NASPO for the Periods 2007-2011;
19. Accounting reports for NASPO, WSCA, NASPO-WSCA, and communications with Jack Gallt, NASPO Executive Director, AMR Management Services
20. Interview of Kent Beers;
21. Interview of Paul Mash;
22. Interview of Doug Richins; and
23. Internet Research.

IX. Compensation

Sage is being compensated for its services on an hourly basis at billing rates between \$50 and \$325 per hour. Our opinions have been reached independently and our fees are in no part contingent upon the results of this investigation.

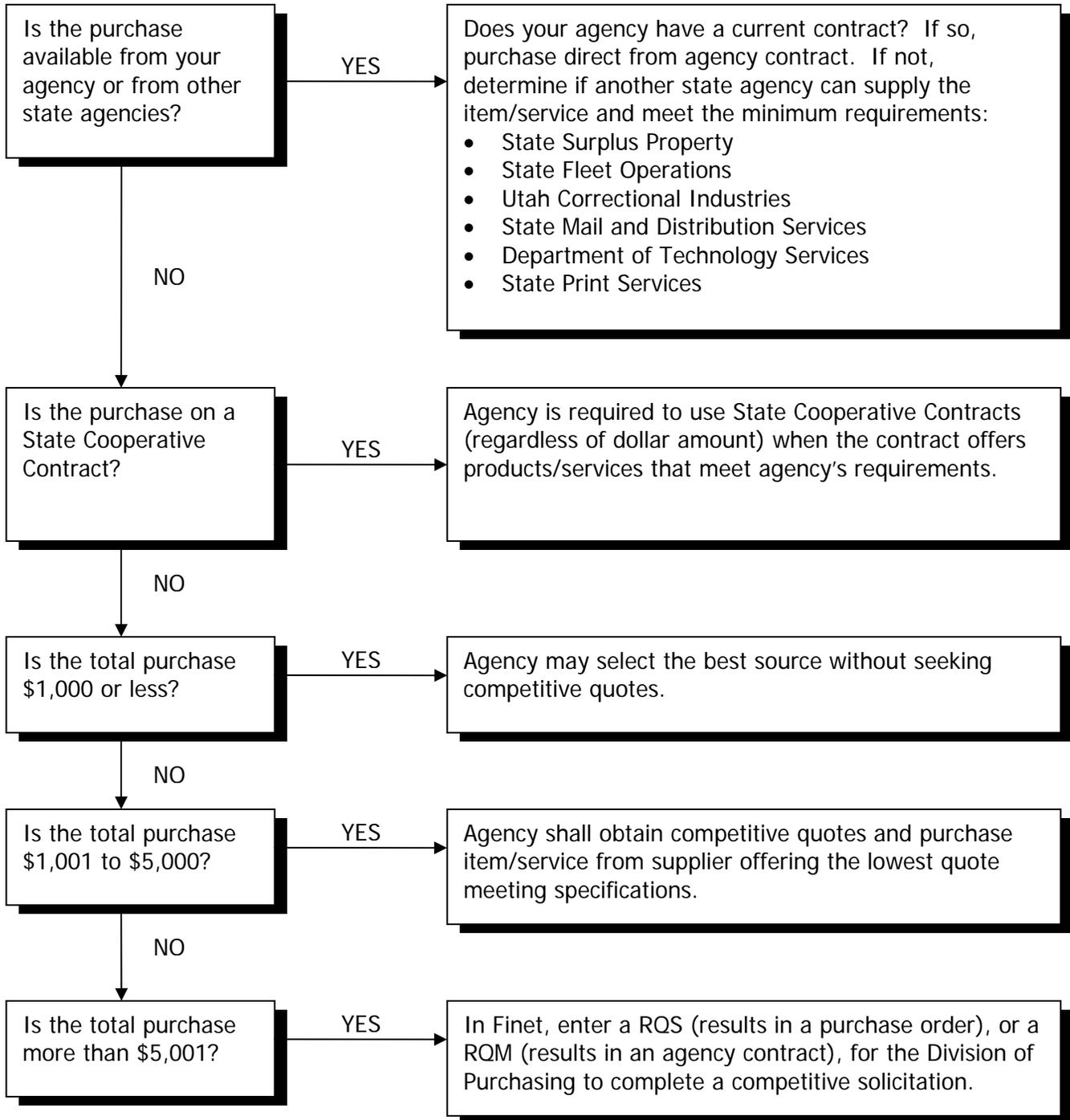
Respectfully submitted,
Sage Forensic Accounting, Inc.



By: Derk G Rasmussen, CPA, CFF, ABV, CFE, ASA
President

Exhibit 1

DIVISION OF PURCHASING FLOW CHART



Sole Source Procurements greater than \$1,000 must be pre-approved by the Division of Purchasing using the Sole Source Request form located at:
<http://purchasing.utah.gov/contract/documents/solesourcerequestform.doc>

This flow chart is for information purposes only. Refer to Purchasing Website at www.purchasing.utah.gov for more detailed information or telephone the Division at 801-538-3026.