

WSCA Response to Allegations by Senator Todd Weiler and Senator Margaret Dayton

Allegation #1: “WSCA collects a fee from companies who win a RFP, but adds nothing to the equation because state members manage each procurement process from start to finish.”

Response #1: WSCA is a cooperative purchasing organization that originated in the western states but because of the very cost effective and beneficial contracts, utilization has spread across the country. The WSCA cooperative model utilizes a lead state model, this is critical in effective multi-state cooperative purchasing. WSCA is very much involved in identifying potential cooperative procurements, identifying and selecting the lead state, organizing multi-state and multi-discipline sourcing teams. WSCA facilitates and assists the lead state in conducting the procurement, evaluating and awarding the resulting contracts, contract administration and disseminating information to potential contract users across the nation.

The administrative fees coming to WSCA are used to:

- Reimburse lead states for their personnel and other expenses in leading and administering the complex multi-state contracts.
- Reimburse other states that provide procurement and subject matter experts as sourcing team members.
- Reimburse expenses associated with bringing these sourcing teams together in pre-bid work, RFP evaluation efforts and ongoing contract administration.
- Fund professional development activities enhancing skills and abilities for state procurement professionals.
- Support WSCA administrative functions including assisting lead states with procurement efforts and NASPO states using WSCA contracts. WSCA has five full-time employees and a management firm under contract to assist lead states conducting procurements for and in behalf of WSCA and to assist NASPO member states using WSCA contracts.
- Support the WSCA organization and business function. Note that WSCA is the organization that brings together the buying power of multiple states. As a general rule, an individual state cannot obtain the same overall value on contracts that WSCA achieves through volume discount pricing, improved contract terms and conditions, favorable product warranties, and better maintenance and service agreements.

- Fund a eMarketCenter that will provide an effective eProcurement experience allowing contract users to compare contracts and efficiently place contract orders.
- Conduct contract compliance and cost recovery audits of vendors on WSCA contracts (currently two audits underway: Lab Supplies and Office Supplies).

Allegation #2: “Vendors cuts a check directly to WSCA – a cost that can only increase the price of the product – and thus how much the product costs taxpayers.”

Response #2: The WSCA administrative fee was established by the WSCA directors for each specific contract. With the exception of the administrative fee on two contracts, WSCA administrative fees range from 0 to ½ of 1 percent of the cost of the product and bidders include the administrative fee in the cost of the product when bids are submitted. In 2012 there was \$8.3 billion purchased on WSCA contracts with \$9.7 million of administrative fees collected, for an average administrative fee of .00117 (slightly over 1/10 of 1 percent of the product cost). In other words, the average WSCA administrative fee was 12 cents collected on a \$100 purchase. The improved product pricing, contract terms and conditions, warranties and service agreements enjoyed by the purchasing entities because of the WSCA cooperative purchasing efforts is considerably outweighed by the extremely small WSCA administrative fee.

Note “A” - WSCA’s administrative fee is 1.5% on the Procurement Analysis Consulting and Vehicles Lifts contracts. The WSCA Directors recently voted to lower the fee on these contracts to the standard ½ of 1%.

Allegation #3: “WSCA does nothing to facilitate the procurement. The lead state does all the work in the procurement, yet WSCA is being paid.”

Response #3: Nothing could be further from the truth. WSCA does considerable work on each and every procurement resulting in a WSCA contract. As stated above, while the WSCA cooperative model utilizes a lead state model, WSCA is very much involved in identifying potential cooperative procurements, identifying and selecting the lead state, organizing multi-state and multi-discipline sourcing teams. WSCA facilitates and assists the lead state in conducting the procurement, evaluating and awarding the resulting contracts, contract administration and disseminating information to potential contract users across the nation.

Allegation #4: “In the past five years, fees from vendors have increased WSCA’s bottom line from approximately \$300,000 in 2007 to more than \$25 million in 2012.”

Response #4: WSCA’s fund balance in 2007 was approximately \$7.3 million (not \$300,000) and has increased due to the number of states and entities that have found value in using the

contracts. The WSCA directors set the contract administrative fee and adjusted it as appropriate. This is a continual “right sizing process”. Moreover, sales on WSCA contracts in 2012 exceeded \$8 billion. Having a retained earnings balance that is .3% (3 tenths of 1%) of \$8 billion in sales is neither excessive nor inappropriate compared other organizations with similar sales. The fund balance is in place to guard against lawsuits involving contract disputes, reimburse states for their efforts for and in behalf of WSCA as contract leads and sourcing team members, fund professional education development grants to NASPO states (\$20,000 per state annually), to host educational seminars and product trade shows to enhance the knowledge of procurement professionals in all NASPO member states.

Note “B” - In keeping with NASPO’s educational mission professional education development funding of \$20,000 for 50 plus member states will equate to over \$1million annually and there have been discussions about increasing this amount over time.

Note “C” - Regarding the fund balance: It takes considerable operating capital to run a purchasing cooperative with over \$8 billion in annual sales. For example the Board voted last December to benchmark each of the significant WSCA-NASPO Cooperative contracts against similar contracts to document that WSCA-NASPO contracts have excellent pricing and favorable terms and conditions . The first benchmark study cost \$50,000 (KPMG Benchmark Study of the WSCA-NASPO Office Furniture contract). The cost to Benchmark another 25 to 30 WSCA-NASPO contracts at \$50,000 each will be approximately \$1,250,000 to \$1,500,000.

WSCA-NASPO is also conducting audits on all of their significant contracts to ensure that vendors are charging public entities the correct contract price for goods and services bought under WSCA-NASPO contracts. The first audit cost WSCA-NASPO over \$60,000. The cost to audit another 25 to 30 WSCA-NASPO contracts at \$60,000 each will be approximately \$1.5 million to \$1.8 million.

Allegation #5: “Concerned that such growth in WSCA’s bank account could create problems for their non-profit tax status, WSCA has spun off a for-profit arm, and transferred approximately \$12 million from the non-profit to this for-profit company.”

Response #5: This allegation has no foundation in fact. WSCA has not spun off a “for-profit” arm. With a minimum amount of effort, any person could easily document that WSCA has always been a subset of the National Association of State Procurement Officials (NASPO) – a non-profit 501(c)(3) organization. Because of the growth of contract usage by states outside the west a new organization – the WSCA/NASPO Cooperative Purchasing Organization, LLC (WSCA/NASPO) has been formed to reflect the national scope and usage of the current and future contracts. Public records clearly document that the WSCA/NASPO Cooperative

Purchasing Organization, LLC is a subsidiary of the National Association of State Procurement Officials (NASPO), a 501(c)(3)-not for profit professional association.

Allegation #6: “Utah’s Division of Purchasing Director, Kent Beers, also is the current chair of WSCA and his Deputy Director serves on the WSCA’s parent board, NASPO (National Association of State Purchasing Officials).”

Response #6: The new WSCA/NASPO Cooperative Purchasing Organization coordinates multi-state procurements and the resulting contracts that may be used by all 50 states. The organization has an elected Management Board of 21 state chief procurement officers. Utah has always been a leader and active participant in WSCA and NASPO. Kent Beers represents the State of Utah on the Management Board and has been elected by his peers to serve as the chair of the Management Board. WSCA/NASPO is a subsidiary of the National Association of State Procurement Officials (NASPO) a 501(c)(3)-not for profit professional association. Paul Mash represents the State of Utah in NASPO and has been elected by his peers to serve on NASPO’s board.