



Report of the Vermont State Auditor

April 22, 2009

SCHOOLS' USE OF STATE PURCHASING CONTRACTS

OBSERVATIONS ON VERMONT
SCHOOL DISTRICTS' AND
SUPERVISORY UNIONS' USE OF
STATE PURCHASING CONTRACTS

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Rpt. No. 09-02

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STATE OF VERMONT
OFFICE OF THE STATE AUDITOR

MEMO TO: Deb Damore, Section Chief,
Purchasing & Contract Administration, BGS

FROM: George Thabault, Deputy State Auditor

CC: Gerry Myers, Commissioner, BGS
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Officials (VASBO)
Tom Salmon, CPA, Vermont State Auditor
Joe Juhasz, Vermont State Auditor's Office
Jonathan Guy, SAO consultant

DATE: April 22, 2009

Re: Observations on Vermont School District & SU Use of BGS
Purchasing Contracts

This memo seeks to summarize the work we've done in cooperation with the Vermont Dept. of Buildings and General Services (BGS) to answer a few questions raised by State Auditor Tom Salmon and to offer several recommendations for review by BGS, and perhaps the Dept. of Education.

The Auditor wanted to know if Vermont's "political subdivisions" such as local governments, school districts and Supervisory Unions (SUs) were utilizing the State's contracting system, and if so, were towns and schools saving money? And if cities and towns were not checking state contracts, how could we get them to do so in their purchasing procedures?

We decided to focus on schools, due to the time and resources available for this review.

Currently, the State of Vermont has 284 school districts that are managed by the 51 Supervisory Unions and 12 Supervisory Districts (SDs). Total Statewide educational expenditures for Fiscal Year 2007 were reported by the Dept. of Education (DOE) as approximately \$1.4 billion.

Statewide expenditures coded by reporting SUs for miscellaneous supplies (\$47.5 million) and non-electricity energy such as wood chips or heating fuel (\$11.4 million) totaled approximately

\$59 million. Supply dollars could be higher due to the way expenditures are recorded – some supplies and items might be included in other education categories such as “instructional equipment,” for example. (We did not attempt to estimate total Vermont school purchases of products available through BGS-developed contracts.)

Both Supervisory Unions and Districts provide administrative services to their member schools, including business management. As political subdivisions of the State of Vermont, SUs and individual districts are eligible to participate in the State purchasing contracts if the terms of the specific contract allows. (Vendors bidding on State contracts are allowed to restrict their products and services to State government agencies only.)

Furthermore, under State law, the Commissioner of BGS and the Commissioner of the Department of Education are charged with “developing and promoting a program of centralized purchasing of equipment and supplies for public schools in Vermont.” (29 V.S.A. §905)

The State Auditor’s Office (SAO) undertook a review of the use of the BGS purchasing contracting system by SUs and districts with the following objectives:

- 1) To understand if purchasing officials are aware of what can be purchased through State contracts;
- 2) If they regularly utilize the contracting system and if so, for which products and if they viewed the system as effective; and
- 3) For those not utilizing the contract system, to understand why they do not.

STEP ONE

With the help of consultant Jonathan Guy, we developed a questionnaire to send to a sample of SUs and districts. We selected the two largest SUs or districts in each of the 14 counties in Vermont, except for Grand Isle County which has only one SU, for a total of 27 entities selected. We were able to submit the questionnaire by e-mail, postal mail or fax or conduct the questionnaire by telephone with 24 of the 27 selected entities.

Of those 24 entities, 19 responses were ultimately received.

All 19 entities said they were aware of the State purchasing contract system but only 4 of the 19 respondents (21 percent) are currently using State contracts for some of their purchases.

Seven of the 19 (37 percent) said they had used the State purchasing contracts in the past. Of the 7 entities that currently use or have used the system previously, 3 found that for certain products better prices were achieved by the SU or district sourcing their products independently.

STEP TWO

Our next step was to select several SUs not using the contract and to review some of their purchases to compare the prices they paid against the price of the State contract, but only where clear comparisons could be made. (Note: BGS purchasing contracts offer 400 commodities across 45 categories.)

We chose the Rutland, Barre, and Hartford SUs (not using the State contracts) and four categories of purchases:

- a. Custodial or Janitorial Supplies;
- b. Office Supplies;
- c. Office Machines; and
- d. Computer or Computer Peripherals.

We then sampled invoices from the last 12 months, to determine if the local price paid by the SU was higher or lower than the State purchase price available at the time of purchase. We were unable to finish the review of Hartford.

Not all SU purchases can be compared to the State's prices on an "apples-to-apples" basis. We learned, for example, that the State is mandated by law to procure copy paper that is recycled and processed 100 percent chlorine-free. Local school purchases don't have to meet this standard, so that SUs can beat the State price (example: The Rutland SU paid \$26.99 per 500 sheets of copy paper vs. the State's \$34.50 per 500 sheets – a \$7.51 difference [27.8 percent higher] per 500 sheets.)

In addition, computer-related contracts can vary in price due to warranties, what software is included, training, and other factors.

In our small sample of purchases we found that:

1. Rutland City SU paid **less** than the State contract price on 7 of 9 items, not including copy paper. Rutland saved between 3 percent – 48 percent on the 7 items.
2. Barre SU paid **more** than the State contract price on 5 of 7 items, not including copy paper. Barre paid 10 percent – 22 percent more on the 5 items.

Through interviews and the survey, we noted that business managers pride themselves on searching out the best price from local vendors, and in many cases this price beats the State price. One reason the school group can beat the State price is that they often take advantage of local vendor promotions, such as short-term sales and discounts, close-out sales, etc.

It's hard to make definitive conclusions based on our limited sample, but perhaps we can summarize what might be consensus viewpoints:

1. School districts and SUs throughout Vermont spend significant dollars for services and supplies, small and large, some of which are available through the State-managed contracting system;
2. Schools are interested in saving money on purchases where practical, and the State is interested in helping schools to do so¹;
3. There has been a recent increase in interest on the part of schools regarding the purchase of wood chips and heating fuel oil, according to BGS;
4. It's currently difficult for BGS to know which schools are using the State purchasing system, for which products, how much is spent, and how much is saved;
5. Though legislation passed in the late 1980s (29 V.S.A. §905) appears to require BGS and the Dept. of Education to develop and promote a centralized purchasing system for Vermont public schools, and authorized establishment of a revolving fund to support the program, the centralized system for schools has not been created.²
6. There is currently no on-going day-to-day communication, such as an e-mail list-serve, among school business managers and State contracting officers, to share purchasing tips, questions and answers.
7. BGS is improving its outreach recently by establishing a free online monthly purchasing newsletter – BUYERS BUZZ – and is spreading the word to get more business agents to sign up for automatic e-mail delivery.³

¹ Saving 3% overall on \$60 million of annual purchases would result in nearly \$2 million of avoided costs for the educational system.

² Changes in the organizational structure of the State procurement function and the creation of the Dept. of Buildings & General Services may have been the cause, according to BGS officials. School business officials do discuss purchasing issues with other jurisdictions and have been informed of the State contracting system, according to a DOE official.

³ To sign up: go to the newsletter page of BGS' Purchasing and Contract Administration section at: <http://bgs.vermont.gov/purchasing/newsletter> and click on the illustrated notepad.

GENERAL RECOMMENDATION

In light of this shared understanding of the issue, and the need for all public agencies to spend funds in a prudent and effective manner, we would like to offer general recommendation that might help the State and school system ultimately work better together to bring about greater financial savings (and other benefits such as improved quality, minimized environmental risk, better warranties, etc.).

BGS staff, the DOE finance group, and members of Vermont Association of School Business Officers (VASBO) are probably the best people to review how schools can maximize benefits of purchasing through the State's system.

Therefore, BGS, DOE & VASBO leadership should consider creating a School Purchasing Action Committee to review current school purchasing systems, and, if necessary, to establish goals and action steps to produce increased, measurable savings through cooperative efforts. If necessary the Action Committee could outline possible changes in state law to help introduce improved purchasing procedures.

Such a committee should include in its goals a plan to increase communication and awareness of the State's existing purchasing contracting system. To that end, the committee could consider actions to:

1. increase communication efforts, perhaps by dedicating a specific staff person at BGS to promote the State's contracts to school purchasing agents and to handle purchasing questions from the SUs and districts.
2. to create – in addition to maintaining the monthly newsletter, BUYERS BUZZ, a list-serve type of daily or weekly questions, answers and tips on school purchasing matters. (The *MUNI-NET Internet ListServ* now serving about 350 municipal officers in Vermont is a model of this type of inter-governmental communication.) The list-serve would act as an e-mail or Internet-based meeting ground where questions related to products or contracts can be posted and answered. Information would be easily shared among administrators, business managers and BGS.

Thank you for your help during this process; we would appreciate learning of any actions you take to improve the effectiveness of significant purchases by the State's political subdivisions.

Note to other interested readers: BGS contracts offer over 400 commodities negotiated under various price terms and delivery conditions for a specific contract period. Additional contract information can be obtained at <http://bgs.vermont.gov/purchasing/contractinfo>