

**UNIVERSITY OF CALIFORNIA, DAVIS
AUDIT AND MANAGEMENT ADVISORY SERVICES**

**Finance, Operations & Administration
Finance and Resource Management
Accounting and Financial Services- Contracting Services**

**Strategic Sourcing
Project #15-03**

June 2015

Fieldwork Performed by:

Sherrill Jenkins, Principal Auditor

Reviewed by:

Tony Firpo, Manager

Approved by:

Jeremiah J. Maher, Director

**Accounting and Financial Services- Contract Services
Strategic Sourcing
Audit and Management Advisory Services Project #15-03**

MANAGEMENT SUMMARY

BACKGROUND

The University of California (UC) implemented a system-wide Strategic Sourcing Initiative in 2004 designed to reduce the total cost of purchased products and services by fully leveraging UC's combined purchasing power. To meet the UC Working Smarter Initiative, in 2012 UC rolled-out the P200 Strategic Procurement program with a goal of saving \$200 million annually from the procurement spending streams, and redirecting these funds to support UC's core missions of teaching, research and public service.

At UC Davis, Contracting Services is the central unit responsible for all procurement-related activities, which include some of the following; acting as the UC Davis liaison with UC on system-wide strategic sourcing agreements; facilitating local strategic agreements and blanket agreements; and acting as the responsible unit for the *UCDBuy* e-procurement system and for the purchasing card program.

In 2011, Contracting Services created the framework for the UC Davis Strategic Sourcing Program. Contracting Services management indicated that this was never fully implemented because other campus and divisional priorities directed focus and resources away from this project. In September 2013, the Huron Consulting Group was hired to evaluate the workload, staffing, and organizational structure of the Contracting Service's unit, for sufficiency to support the evolving needs and demands of the campus.

Based on recommendations from the Huron report, Contracting Services recently reorganized and relocated to enable a more effective and responsive unit to better meet these demands. There are several active recruitments underway, including four of eight management positions. The vacant management positions, including the Director of Contracting Services, are expected to be filled within the next couple of months, and once filled will allow the unit to move forward with developing and implementing its long-term strategic sourcing program and goals.

Contracting Services is also in the early stages of revamping the campus Strategic Sourcing Program. In the spring of 2016, *UCDBuy* will be replaced by a modern e-procurement system, SciQuest,¹ which is currently used at seven other UC campuses.

Spending at UC Davis through Contracting Service's procurement channels has increased 42% over the last five years from \$240 million in FY 2010 to \$342 million in fiscal year (FY) 2014. For FY 2014 spend, approximately 50% was through purchase orders; approximately 35% was from department spend; approximately 8% was by purchasing card; and 7% was through *UCDBuy* activity.

¹ SciQuest functions through a web portal that will offer more cataloged goods through a more user-friendly environment, while at the same time leveraging our buying power with our strategic sourcing partners. SciQuest will permit hosting of more than 50 vendors and support improved reporting and spend metrics.

PURPOSE AND SCOPE

As part of the planned reviews for FY 2015, Audit and Management Advisory Services (AMAS) conducted an administrative review of the UC Davis strategic sourcing program. The purpose of this review was to evaluate the adequacy and effectiveness of UC Davis strategic sourcing initiatives, including utilization of strategic sourcing agreements by business units.

To perform our work, we met with Contracting Services personnel to understand their strategic sourcing program, and contacted UC procurement personnel to receive additional information on system-wide program implementations. We evaluated UC spend reports and UC Davis transaction data to identify spending trends and metrics, as well as to determine why some purchasers bypass strategic source agreements. Finally, we conducted five targeted surveys of campus purchasers. The period under review was generally March 2014 through February 2015, with some presentation of fiscal year end 2013-2014 financial information.

CONCLUSION

Our analysis of the 12 months reviewed showed that UC Davis has been successful at achieving savings of approximately \$9 million under strategic sourcing agreements, while additional savings of up to \$2 million were foregone primarily because qualifying purchases were not properly linked with vendor agreements by campus personnel (“agreement by-pass spending”). Contracting Services will evaluate the opportunity to seek refunds of some of these amounts that are due and can reasonably be pursued.²

Although *UCDBuy* is being replaced, the campus has been successful at optimizing purchasing with the 16 *UCDBuy* vendors, as approximately 96% of spend with these vendors was completed through strategic agreements (with 67% of this through *UCDBuy*). The remaining spend of 4% with these vendors correlates to foregone benefits of approximately \$200,000 in “agreement bypass spending,” which is included in the overall \$2 million total above.

Contracting Services’ data indicated that spend of approximately \$65 million was identified with competitors of our strategic vendors (“competitor bypass spend”) on commodities available from our strategic vendors. Using the average estimated discount percentage associated with our strategic vendors, this “competitor bypass spend” would correlate to approximately \$9 million in savings which could have been realized had the purchases been directed through our strategic vendors, or had strategic agreements been developed with these vendors.

Accounting and Financial Services has agreed to provide resources in support of Contracting Services’ effort to establish an effective strategic sourcing program. The future success of the strategic sourcing program will depend on: (i) the effective development and implementation of the strategic sourcing program itself; (ii) the successful roll-out of the new SciQuest e-procurement system; and (iii) communication regarding, and monitoring of, bypass spending. Management will need “buy in” from the campus community to address the concerns of campus personnel surrounding purchasing from strategic sourcing partners, such as that certain items cost more from strategic vendors than from other vendors. As part of the SciQuest roll-out, Contracting Services will be providing training to users, implementing strategic marketing and communications plans, and finalizing metrics to measure the campus’ success in meeting our strategic sourcing goals.

² On some purchases, vendors may have provided the discount price even though the purchase was not properly linked with the agreement. For purchasing card purchases, sufficient data is not available to pursue refunds.

I. OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS

A. Strategic Sourcing Agreements: Benefits Realized and Foregone

For the 12 month period reviewed, UCOP data suggests that UC Davis has been successful at achieving savings of approximately \$9 million under strategic sourcing agreements. Our analysis indicates that additional savings of up to \$2 million were foregone because of agreement bypass spending.

1. Benefits Realized

As part of the P200 program support, UC implemented a Benefit Bank repository in 2015 to track each campus' potential benefit associated with implementing a strategic sourcing agreement. Contracting Services provided AMAS with UC Davis' estimated strategic sourcing spend and expected benefit for FY 2015. Using this data, we examined spend for the top 10 strategic vendors, which represented approximately 33% of all estimated spend dollars, and determined that actual savings achieved were over \$2.9 million. Projected over all vendors and spend, this represents savings of approximately \$9 million realized by UC Davis.

2. Benefits Foregone

When purchasing from vendors with whom UC Davis has a strategic sourcing agreement, campus personnel do not always link their purchases to the agreements, resulting in foregone savings. We identified this "agreement bypass spend" to be as high as \$14.7 million³, corresponding to foregone savings as high as \$2 million.⁴ The \$14.7 million in spend is associated with three main purchasing processes:

- \$13.7 million with department purchases on the automatic purchase orders.
- \$700,000 was by-pass spending relating to freight and shipping charges.
- \$300,000 was spending with strategic vendors using purchasing cards.

For department purchases, 64% of survey participants cited training issues as a reason for not associating an agreement number to their purchase, while 36.4% stated the item purchased was not included on the agreement.⁵ (*Exhibit 1*)

For purchasing cards, responses of survey participants demonstrated that training opportunities exist to move these purchasers to the new SciQuest portal (69.6%). Responses also indicate that the purchasing card must sometimes be used to meet timeliness and location issues (30.4%). (*Exhibit 2*)

³ Probable Bypass: Some of this bypass may include purchases of commodities that were not available through the vendor's agreement. Our analysis did not include examination of all commodities available under each agreement.

⁴ This calculation is based on total weighted average agreement benefit percentages in the Benefit Bank.

⁵ AMAS queried personnel about their purchasing practices in general, rather than regarding individual transactions; as such, we were unable to verify the degree to which purchases made by survey respondents were included in a strategic sourcing agreement.

Recommendation

Contracting Services should evaluate the opportunity to pursue refunds from strategic sourcing vendors associated with the agreement bypass spend activity for those commodities that were included in strategic agreements. See additional recommendations regarding improvements to the strategic sourcing program under Observation I.D. below.

Management Corrective Action

By 11/15/2015, Contracting Services will evaluate the opportunity to pursue refunds from strategic sourcing vendors due to agreement bypass spend.

B. UCDBuy Vendors

Our analysis of UCDBuy vendors demonstrated that 96% of spend with UCDBuy vendors was completed through strategic agreements. The remaining 4% of spend correlates to foregone benefits of up to approximately \$200,000, which is included in the total foregone benefits figure of \$2 million in I.A. above.

For the total spend with the 16 strategic sourcing vendors available through UCDBuy, approximately 96% was completed through strategic agreements, with approximately 67% of this coming through UCDBuy. The resulting total bypass spend of 4% correlates to foregone benefits of approximately \$200,000. See UCDBuy purchasing details in the chart below.

Type	Amount	%	Amount	%
Total Spend with UCDBuy Vendors			\$ 33,408,583	100%
Spend through UCDBuy	\$ 22,341,378	67%		
Spend outside of UCDBuy	9,627,434	29%		
Total Strategic Spend			\$ 31,968,812	96%
Total Probable Bypass Spend:			\$ 1,439,771	4%

Of survey respondents, 22.7% stated that they didn't use UCDBuy because the item wasn't available, and 13.6% stated the UCDBuy interface and searches are too difficult. Implementation of the planned SciQuest e-procurement system including adequate training should address most interface and user difficulty issues. 60% of survey respondents indicated that training opportunities and engaging the purchasing community to use the e-procurement system are paramount. (*Exhibit 4*)

Recommendation

Because UCDBuy is being phased-out, no recommendations are considered warranted.

C. Competitor Spend

Reducing spend with, and/or developing strategic agreements with, competitors of campus strategic sourcing vendors represents an opportunity for significant savings, as UCOP data indicates that the campus could realize approximately \$9 million in additional annual savings.

Contracting Services provided information to AMAS from UC's Spend Radar⁶ system which identified the four largest strategic sourcing commodity spend categories⁷, with associated spend of approximately \$153 million. Contracting Services identified \$65 million (42%) of the \$153 million as competitor spend where the competitor provided the same or similar commodities as our strategic vendors but no agreement exists with the competitor vendor.

Based on Spend Radar and Benefit Bank information, we calculated that the potential loss of benefits could be as high as \$9 million.

Survey participants provided insight into why they did not use a strategic vendor for their purchase: 51.7% of responses identified opportunities to train or engage the campus community in strategic purchasing, while 48.3% respondents stated the items purchased were not available through existing vendor agreements. (*Exhibit 3*)

Recommendation

See recommendations regarding improvements to the strategic sourcing program under Observation I.D. below.

D. Progress of the Strategic Sourcing Program

The strategic sourcing program at UC Davis has not yet progressed as comprehensively as had been envisioned at its inception in 2011; as a result, individual departments bypass strategic sourcing agreements and contract for goods and services using alternative procurement vehicles.

Contracting Services has recently begun assigning subject matter experts in spend categories to better support strategic sourcing objectives. They are also currently identifying and developing metrics that can be used to establish baseline activity that can then be used to assess their progress toward their yet-to-be-determined goals. Key issues that have impacted the progress of the program in the past and recently are as follows:

1. Management indicated that due to budget cuts over the last few years, employee resources have not been available to support the comprehensive implementation of this program. However, additional resources have been provided based on recommendation from the Huron report and Contracting Services is now in position to support this endeavor.

⁶ Implemented by UC Procurement Services in January 2014, Spend Radar is a repository of spend data fed from financial systems from all campuses, to provide insight into: what we are buying; who we are buying it from; who is buying; and how we are buying it.

⁷ These four categories are: IT and Telecom; Life Sciences; Maintenance, Repair and Operating; and Office Supplies, Express Package and Environmental Services. (See complete list at Exhibit 6)

2. An updated comprehensive plan to support defined strategic sourcing objectives needs to be developed. The Strategic Sourcing Plan created in 2011, although comprehensive in scope at that point in time, was not fully completed and is in need of revision to incorporate our current and pending procurement processes.
3. Communications and training from Contracting Services to the campus community in support of strategic sourcing could be improved.
4. Metrics in support of our strategic sourcing procurement practices have not been fully developed. Various metrics are currently in development, but there are several key metrics that still need to be developed and deployed in support of the strategic sourcing objectives, including; customer satisfaction; measurement of spend-to-benefit calculations; and bypass spending.

Recommendation

Contracting services should address the key issues that have impeded their ability to successfully implement their strategic sourcing program.

Management Corrective Actions

1. To facilitate the completion of the reorganization, Contracting Services will have all vacant management positions filled by 3/15/2016.
2. Contracting Services will revise the current Strategic Sourcing Plan to be comprehensive and current. The Plan will be revised and approved by Management by 12/15/2015.
3. Contracting Services will develop strategic communications and marketing plans for the campus community in support of strategic sourcing program objectives by 2/15/2016.
4. Contracting Services will also develop targeted training programs and material in support of the strategic sourcing program objectives by 2/15/2016.
5. Contracting Services will develop appropriate metrics, including customer satisfaction, measurement of spend-to-benefit calculations, and bypass spend metrics, in order to evaluate how well we are meeting the Strategic Sourcing Program objectives. Metrics will be developed by 4/15/2016.
6. The intent of the strategic sourcing program is to redirect purchasing savings to fund the University's mission. Therefore, Contracting Services will work with campus management to evaluate the opportunity to tie utilization of the program to redirection of savings, and thus serve as an incentive for using strategic sourcing agreements. This plan will be developed by Contracting Services and the Financial Sustainability Action Plan exploration committee, focusing on Strategic Sourcing by 3/15/2016.

E. Employee Reimbursements

Campus personnel use employee reimbursements as a procurement method, even though this method is not authorized.

For employee reimbursements, data is not captured regarding vendors used or commodities purchased; as such, we could not quantify the degree to which employee reimbursements represent savings that could have been realized through the campus strategic sourcing program. In our review of employee reimbursements, we identified 11,289 reimbursement transactions totaling approximately \$1.7 million over the 12 months under review, categorized as follows:

- 235 transactions greater than \$500
- 11,054 transactions less than \$500
- 1,393 transactions less than \$20
- 481 transactions less than \$10

The activity within Plant Sciences and UC Cooperative Extension was noteworthy, as these units combined to represent approximately 44% of the transactions and 12% of the total dollars.

Of survey respondents, 55.6% indicated they would like to be provided with a low value purchasing card, while 44.4% would like greater access to department purchasing personnel. (*Exhibit 5*)

Recommendations

Accounting & Financial Services should identify opportunities to educate department personnel about the need to obtain goods and services using more appropriate purchasing channels.

Management Corrective Actions

1. By 3/15/2016, Accounting & Financial Services will identify a management reporting strategy or identify other methods to move employees away from using the reimbursement method to obtain their goods. Management will focus on missed opportunity, education, and communications.

EXHIBITS**Exhibit 1: Agreement Bypass Spend Survey**

Q1: When creating the REQS document, why did you not identify the agreement number for your purchase?

Answer Options	Response Percent
I did not know the vendor had an agreement.	36.4%
The items I was purchasing were not included in the vendor's agreement.	36.4%
I did not know I needed to associate my purchase to an agreement.	18.2%
To locate the agreement seems too complicated for my purchases.	9.1%
I do not know how to search for the vendor's agreement.	0.0%

Q2: Were you aware that your purchases may have received further discounts if the purchase was associated to an existing agreement within the REQS document?

Answer Options	Response Percent
Yes	50%
No	50%

Exhibit 2: Purchasing Card Usage

Q1: You generally use your PCARD for these purchases because of the following reasons:

Answer Options	Response Percent
Some items are not available through <i>UCDBuy</i> or agreements.	30.4%
Timeliness: The items were generally needed immediately and there is no opportunity to process a purchase request, or use <i>UCDBuy</i> .	26.1%
This is the easiest way to purchase my items.	21.7%
If I knew the vendor was a strategic partner, I would have purchased my items through the KFS processes, or the <i>UCDBuy</i> process.	13.0%
Timeliness: I am located away from campus with no access to purchasing personnel.	4.3%
I did not know the vendors may be strategic sourcing partners.	4.3%

Q2: Are you aware that UC purchasing policy (BFB BUS-43) stipulates the use of an existing agreement for low value purchases unless exceptional circumstances dictate the need to bypass the agreements?

Answer Options	Response Percent
Yes	69%
No	31%

Q3: In most cases my purchasing card purchases from these vendors were because of exceptional needs.

Answer Options	Response Percent
Yes	53%
No	47%

Exhibit 3: Competitor Bypass Spend

Q1: When using the KFS purchasing processes, why would you not use our strategic sourcing partners?

Answer Options	Response Percent
The items I was purchasing were not available through an existing vendor agreement.	48.3%
To locate a vendor with an agreement seems too complicated for my purchases.	17.2%
I did not know there was an existing vendor with an agreement for my purchases.	10.3%
Prices were cheaper on competitor sites.	10.3%
I do not know how to search for vendors with an agreement for goods that I might need.	6.9%
Specific vendor requested.	6.9%

Q2: UC Davis is replacing *UCDBuy* in the near future, and moving to a new web portal that will offer more cataloged goods through a more user friendly environment, while at the same time leveraging our buying power with our strategic sourcing partners. What suggestion(s) would you offer to help the campus community engage in this new system?

Answer Options	Response Percent
Provide ample training opportunities to learn the new system.	44.8%
Provide desk pamphlets that help purchasers navigate existing agreements.	17.2%
Cultivate faculty "buy in" to direct their purchases to our strategic partners and/or the new web portal.	17.2%
Extensive marketing of the benefits of using the system.	10.3%
Provide a procurement web portal helpdesk.	10.3%

Exhibit 4: *UCDBuy* Usage

Q1: Why did you not use *UCDBuy* for your purchases?

Answer Options	Response Percent
I did not know one or more of these vendors were in <i>UCDBuy</i> .	31.8%
Items not available in <i>UCDBuy</i> .	22.7%
I find better prices on the vendor's site.	18.2%
<i>UCDBuy</i> interface and searches are too difficult.	13.6%
I prefer to go to the vendor's store or web site.	9.1%
Cannot split accounting charges.	4.5%

Q2: When purchasing the items through KFS and the requisition processes, you did not relate your purchase to an existing agreement with the vendor.

Answer Options	Response Percent
To locate the agreement seems too complicated for my purchases.	29.4%
The items I was purchasing was not included in the vendor's agreement.	29.4%
I did not know I needed to associate my purchase to an agreement.	23.5%
I did not know the vendor had an agreement.	17.6%

Exhibit 5: Employee Reimbursements

Q1: I use the employee reimbursement processes to obtain goods or services for my operational activities because:

Answer Options	Response Percent
This is the easiest way for me to get the item I need.	33.3%
I do not have access to a purchasing card, or to someone else who could use a purchasing card for my purchase.	22.2%
Timeliness: I am located on or near campus, and the items are generally needed immediately and there is no opportunity to process a purchase request, or use <i>UCDBuy</i> .	22.2%
Timeliness: I am located away from campus with no access to any of the methods above and the item is needed immediately.	16.7%
I have not been trained on the proper way to obtain the goods.	5.6%

Q2: Are you aware that employee reimbursements are initially unauthorized spending that may result in non-approval of your request for reimbursement?

Answer Options	Response Percent
Yes	68.4%
No	31.6%

Q3: When purchasing the item using the employee reimbursement method, outside of our university procurement system, are you aware that the transaction may also result in lost discounts to the University?

Answer Options	Response Percent
Yes	26.3%
No	73.7%

Q4: If employee reimbursements were more functionally restricted as a procurement method, how could our purchasing systems and personnel do a better job of meeting your needs for these purchases?

Answer Options	Response Percent
Provide me with a low value purchasing card.	55.6%
Provide me with greater, or easier access to department purchasing personnel.	44.4%

Exhibit 6: UC Spend Radar Analysis

Following are the UC high-level categories for commodity grouping purposes. The four categories included in this analysis are highlighted below.

UC Level 3 Categories

Building Construction
Educational Equipment and Supplies
Electronic Components and Supplies
Engineering Services
Financial and Insurance Services
Food
Healthcare Services
IT and Telecom
Life Sciences
MRO (Maintenance Repair and Operating)
OEE (Office Supplies, Express Package and
Environmental Services)
Organizations and Clubs
Print and Marketing
Production and Manufacturing Services
Professional Services
Published Products
Royalties
Sports Equipment and Supplies
Travel
Utilities
