

American Association of State Colleges and Universities  
National Association of Educational Procurement

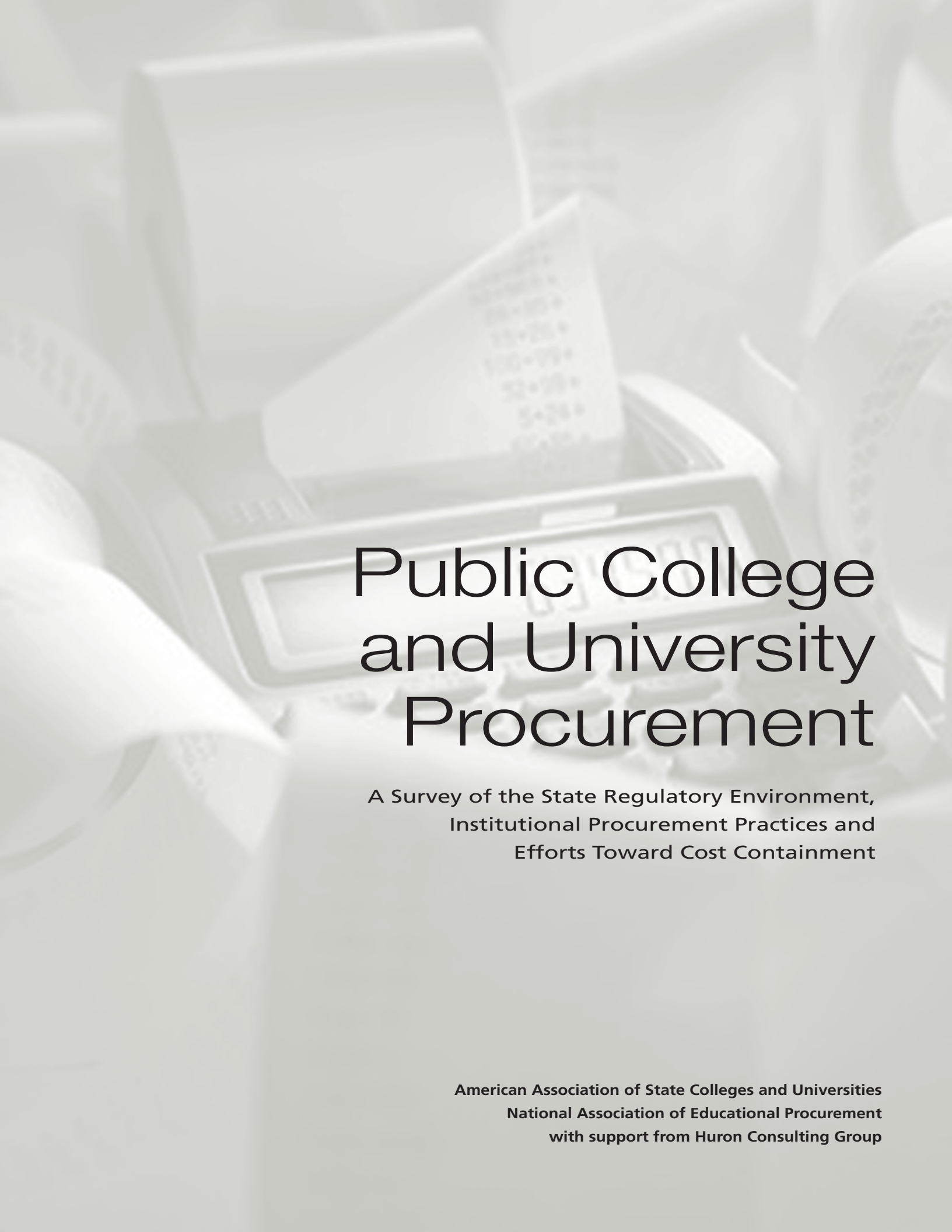
# Public College and University Procurement

A Survey of the State Regulatory Environment,  
Institutional Procurement Practices and  
Efforts Toward Cost Containment



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American Association of State Colleges and Universities  
National Association of Educational Procurement  
with support from Huron Consulting Group

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## Foreword

American higher education is at a crossroads. The nation's public colleges and universities are being called upon to serve as drivers of economic recovery following the greatest economic downturn since the Great Depression. Simultaneously, they are being pushed to increase production of college degrees so that the United States can better compete with other nations that are making dramatic gains in building knowledge-based economies driven by well-educated citizens. Compounding these pressures is a severe recession-induced reduction in states' operating support for public universities.

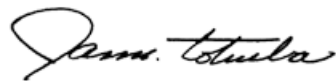
In light of the demands facing U.S. higher education, improving cost containment, efficiency and productivity has been a particular focus of the nation's public universities. Campus administrators have made great strides in streamlining operations to the extent allowed within the confines of state regulatory control. At a time when federal and state lawmakers are calling on higher education leaders to do more with less, however, attention must also be paid to the role that state regulatory reform can play in reducing costs and improving efficiency. Such reform in the multibillion-dollar higher education procurement enterprise offers great opportunity for individual campuses and

university systems to streamline purchasing operations to save time and money, increase product and service quality, and most importantly, redirect critical resources toward universities' core missions of teaching and learning. Many private, non-profit colleges and universities—not subject to state procurement regulations—have achieved great gains in procurement productivity, quality and cost savings.

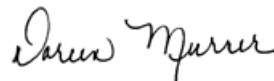
This study of institutional practices and the impact of the state regulatory environment on higher education procurement provides insight on how both institutions and states can make significant improvements through a variety of reforms, while maintaining transparency and accountability. It is our hope that the recommendations contained in this study will be seriously considered by all key stakeholders, from state lawmakers and agency officials to college/university and system leaders to those integrally involved in campus-level procurement operations. More thoroughly exploring cost reduction and quality improvement in higher education procurement can help the nation's public colleges and universities fulfill their critical roles in building a stronger economy and vibrant society.



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# Executive Summary and Recommendations

**T**he demand for greater productivity, efficiency and spending restraint in American public higher education continues to grow. Recession-induced state cutbacks in funding for public colleges and universities, combined with a surge in student enrollments, have made it imperative for these institutions to further scrutinize current spending and implement new reforms and practices that fully leverage every taxpayer and tuition dollar expended, while continuing to ensure accountability. Indeed, there is plenty of evidence to suggest that institutions have strenuously pared back spending while protecting their core pursuits of teaching, research and service. Some will argue that the soil has been fully tilled, that all obvious and easily applied cost-saving measures have been put into place. However, others believe that more can and must be done and that additional opportunities for cost savings do exist.

This study contends that one area rich for reform and cost-saving opportunities is college and university procurement—the billions of dollars public institutions spend annually to purchase goods and services. While considerable cost savings may be realized in the reform of current procurement practices, these practices are largely shaped by state policies and mandates, as well as policies at the system and institutional levels. This study, based on a survey of procurement officials at public colleges and universities, examines the opportunity at hand to reform state and institutional procurement policies and practices to further contain costs, improve efficiency, and boost productivity in an area affecting

virtually every aspect of campus operations. All stakeholders have a role to play: state policymakers, state procurement officials, campus leaders, campus procurement professionals, and even end users at the departmental level.

As with any survey-based study, caution must be made in generalizing from these findings. Due to the relatively small sample of procurement officials who responded to the survey, these findings may not reflect the overall state of university procurement operations. However, they do shed light on important procurement issues and suggest areas in which improvements may be made.

The survey data confirm that states exercise considerable oversight over the purchase of goods and services by America's public colleges and universities. States utilize a variety of statutes, regulations and other policies aimed at ensuring accountability and leveraging public monies. Respondents from nearly three-fourths of the states represented in the survey indicated that their procurement operations and purchasing decisions are within the purview of state procurement policies. About half of the respondents indicated that purchases over a minimum threshold must be made through or with approval of the state and/or that some types of contracts or purchased items must be handled through the state.

Evidence from the survey suggests that some state procurement policies inhibit colleges' and universities' ability to fully maximize purchasing power, generate

cost savings, enhance product/service quality and improve procurement efficiency and productivity. These include the inability of institutions in some states to participate in cooperative purchasing consortiums or reverse auctions, or to negotiate competitive bids. The mandated use of state contracts and requirements to accept the lowest bids for contracts (thus ruling out consideration of nonmonetary factors such as product/service quality and servicing) were also reported as barriers to more effective procurement spending. Additional constraints are imposed by various state policies that designate preferences in the awarding of institutional contracts—such as the purchase of furniture from state correctional industries—as well as the extensive staff time involved in preparing reports for the states with little evidence the reports add value to the process. There is also a general sense that some state policies limit institutions' ability to appropriately tailor their purchasing needs.

There are indications that some states are changing their statutes, regulations and policies, allowing institutions to more flexibly leverage procurement expenditures and better adapt purchasing decisions to meet institutional needs. These include increasing autonomy for selected institutions, increasing state-mandated minimum dollar thresholds involving competitive bids and the approval of certain types of contracts, and allowing institutions to participate in purchasing cooperatives. Some institutions also reported an increased ability to save money through renegotiated state contracts, especially those involving energy-related commodities.

At the institutional level, a wide variation in policies is apparent, including those involving how procurement decisions are approved, at what minimum dollar

thresholds, and for what types of contracts. It is clear that an array of rules and protocols are in place to incorporate accountability into the campus procurement process and to leverage institutional purchasing power. The survey reveals that U.S. public colleges and universities frequently use technologies that facilitate smart purchase expenditures, such as procurement card (PCARD) programs and software that electronically routes requisitions, purchase orders and other common procurement forms. However, the survey data suggest further room for improvement in the use of additional e-procurement tools that can help institutions better assess, control and leverage their procurement expenditures.

Those institutions authorized by state policy to participate in cooperative purchasing arrangements are making broad use of such compacts. Commodities most often cited as being obtained through purchasing consortia include office supplies, scientific goods, printing services, medical and surgical goods and services, building-maintenance supplies and services, computer/information technology (hardware and software) and related services, library resources and fleet (car and truck) management. Still, more can be done by institutions to maximize opportunities to generate savings via such consortia, especially in the areas of insurance (health, liability, life, property), workers' compensation and spending on energy/utilities.

The procurement professionals taking part in this study identified institutional barriers to more effective cost management, administrative efficiency and accountability. Some respondents cited excessive paperwork and outdated or unjustified rules. Others reported much the opposite, such as insufficiently comprehensive institutional procurement policies and

unclear protocols. Some reported underutilization of procurement software tools and budgeting processes that do not promote a culture of spending restraint.

A key focus of this study is on the impact of state, system and institutional policies on efforts to better control costs in campuses' purchasing operations. Regarding institutional and system policies, a full one half of survey respondents indicated that these policies were somewhat or very helpful. Still, nearly three in 10 respondents indicated that policies currently in place were somewhat or very detrimental to efforts to contain costs. Respondents were more likely to attribute these detrimental effects to state procurement policies than to either system or institutional policies, with just over half indicating that state policies were somewhat or extremely detrimental. However, it is noteworthy that more than four in ten respondents described state policies as being somewhat or very helpful, affirming the very important role that such policies can play in institutions' ability to generate procurement savings.

Several key recommendations for states as well as for systems/institutions emerged from the survey and are summarized below. These proposals can produce meaningful improvements in the utilization of resources in the purchasing of goods and services.

### **Recommendations for States**

- Provide greater autonomy to systems and institutions regarding procurement policy.
- Review, and if warranted, increase the minimum dollar threshold for purchases requiring state approval, as well as adjust minimum thresholds involving formal competitive (sealed) bids.

- Eliminate state mandates requiring institutions to accept the lowest responsive bids in the awarding of contracts.
- Make participation in state purchasing contracts voluntary; institutions may opt into these contracts when it is advantageous to do so, but opt out of them when better options can be identified.
- Allow institutions to participate in group-purchasing consortia.
- Allow institutions to conduct negotiations with suppliers beyond the competitive bidding process.
- Review, and where warranted, relax state preferences or mandates involving the awarding of certain contracts.
- Enable institutions to participate in reverse auctions, wherein vendors compete to obtain business, as opposed to the traditional method of buyers soliciting competitive bids to purchase goods/services.

### **Recommendations for Systems and Institutions**

- Review, and where warranted, amend overly burdensome or outdated institutional policies regarding the approval of procurement decisions over a specified minimum dollar threshold.
- Evaluate the prudence of, and where reasonable adjust, institutional policies that mandate the acceptance of the lowest responsive bids.
- Where state policy allows, seek to fully utilize opportunities to participate in group purchasing consortia.



- If allowed under state law, consider greater participation in reverse auctions.
- To the extent that institutional resources permit, further analyze institutional procurement expenditures through greater utilization of e-procurement tools.
- Review current system/institutional procurement rules with the goal of developing a cohesive and comprehensive policy. This may include simultaneously streamlining and augmenting policy.
- Build a campus culture of procurement accountability. This begins with creating a campus-wide culture that recognizes the importance and value of procurement policy in improving efficiency and cost savings, along with implementing institutional policies to ensure that administrative purchases are made through established contracts, to reduce so-called “maverick spending.”
- Ensure that system and institutional procurement officers receive adequate training and ongoing guidance regarding current state procurement statutes, regulations and policies.

# Introduction: Procurement in Public Higher Education and the Opportunity at Hand

**H**igher education is increasingly a hot topic of discussion from kitchen tables to state capitols to the White House. The need for more citizens to participate in higher education—and how to make it more affordable—are top concerns of policymakers as well as campus leaders and, of course, students and parents. The price of college tuition has far outpaced family income for years. Disinvestments by states in their public higher education systems, stemming from scant resources and overwhelming demand for public services and exacerbated by a severe recession, ensure that the need to find real solutions to the college cost crisis will remain a paramount public policy priority. The burgeoning growth rates of Asian economies, and Asian nations' injection of billions into their higher education infrastructures in the global race for talent serve as reminders of the stakes at hand. Nothing less than the nation's economic prosperity and the educational and career aspirations of millions of Americans lie in the balance.

So, what does higher education procurement—the purchasing of goods and services by colleges and universities—have to do with college affordability? What does it have to do with the nation's collective ability to maintain college access and academic quality, both of which are keys to long-term national competitiveness? The answer: a lot.

Higher education procurement is a multibillion-dollar enterprise. Tens of billions of dollars are expended

annually to acquire products and services ranging from paper napkins to supercomputing software for these institutions' students, faculty and researchers. The magnitude of the resources consumed in this procurement is matched equally by the opportunity for improvements in the process itself. These include cost savings, efficiencies and improved productivity.

America's public colleges and universities are being called on to restrain spending and to be more innovative and entrepreneurial in identifying and implementing cost containment and revenue enhancement measures. Campuses' procurement operations already have shifted to automated processes, aggregated purchasing power, and more effective use of information to leverage purchasing decisions within the boundaries of state restrictions. But while technology and human ingenuity have fueled cost reductions, greater efficiency and improved productivity in campuses' procurement operations, government regulation has too often served as a chokehold, stifling institutions' ability to maximize taxpayer and tuition dollars in purchasing commodities.

Writing about the barriers that federal and state regulations pose to innovation, efficiency and quality in American higher education, Diane Auer Jones, president and CEO of the Washington Campus, a consortium of graduate business schools working to prepare business leaders to participate effectively in

national policy discussions, and a former U.S. assistant secretary for postsecondary education, makes a similar argument:

Many of these regulations force institutions to shift valuable resources away from classroom instruction and into administrative functions and salaries, not to mention electronic data systems, non-instructional facilities, external advisory groups, and teams of consultants and lawyers who help institutions complete the annual ritual of checking boxes and submitting reports to bureaucrats who are unlikely to read them and who will never confirm their accuracy.<sup>1</sup>

At both the federal and state levels, policy leaders are increasingly recognizing the real costs associated with regulations affecting colleges and universities. Reducing regulatory burden was a marked, if unrealized, theme of the Spellings Commission on the Future of Higher Education, which was marshaled by then-U.S. Secretary of Education Margaret Spellings and issued its report in 2006. Further, the U.S. Department of Education's Advisory Committee on Student Financial Assistance has been charged with conducting a review and analysis of the Higher Education Opportunity Act of 2008 to determine whether regulations affecting higher education are duplicative, no longer necessary, inconsistent with other federal agencies or overly burdensome. More recently, U.S. Secretary of Education Arne Duncan has been receptive to a review and overhaul of federal postsecondary regulation, with the intent of directing institutions to use any savings achieved for efforts to improve student learning outcomes.

State-level regulation, in particular, can greatly hinder cost savings and the reallocation of institutional resources to pursuits more central to public

universities' educational missions. A recent survey of 35 Texas public colleges and universities conducted by the University of North Texas indicated that they collectively spend \$6.5 million annually preparing and filing state reports.<sup>2</sup> Consider the lost opportunities for savings of time and money due to the:

- Costs of the additional staffing required for reporting and compliance;
- Decreased flexibility in the selection and quality of products and services;
- Decreased ability to fully leverage purchasing power through group contracts; and
- Decreased ability to meet unique institutional needs under a one-size-fits-all state procurement policy.

Coast to coast, state procurement regulations affecting higher education institutions suggest that there is indeed an opportunity for reform. Consider:

- In South Carolina and Utah, public universities are not allowed to utilize consortium contracts and thus cannot fully leverage group-purchasing arrangements.
- In South Carolina, all contracts for information technology services must go through the state; however, the state only adds approved new providers once a year, thus making it difficult for a university to select the most qualified vendor to meet its needs.

<sup>1</sup>Auer Jones, D., "The Federal Regulatory Compliance Fee," *Inside Higher Ed*, January 12, 2010.

<sup>2</sup>Wilkins, W. K. (2009). *The cost of state compliance*. Presentation at the Association of Public and Land-grant Universities' Council on Academic Affairs panel at the APLU Winter Meeting, Washington, D.C.

- In Alabama, public universities' ability to negotiate beyond the receipt of initial bids is limited to a 30-day window and must provide an additional savings of at least 5 percent.
- In Colorado, the state requires its public universities to use a purchasing card (PCARD), but then keeps the rebate dollars generated from the program.

Amidst the backdrop of pressure to produce more college graduates, tight budgets, and calls for all levels of government to more effectively maximize use of taxpayer dollars, the opportunity inherent in regulatory reform is fast becoming a recognized tool for policymakers. Elected officials in several states—among them New York, Rhode Island and Washington—have called for a tough critique of the regulatory environment affecting state agencies and institutions, as well as for reforms aimed at improving cost savings and efficiency. If achieved, such reform can contribute significantly to improved stewardship of public monies.

At a time when America's public colleges and universities are being called upon to produce more with less, it is clear that state governments must turn their attention to the comprehensive overhaul of regulations that ultimately hinder the best interests of the citizens they serve. Revamped higher education procurement regulations can lead to:

- Reduced costs to taxpayers resulting from better leveraging of the purchasing power of public colleges and universities;

- Increased quality of products and services on those campuses;
- Increased institutional efficiency and productivity generated by streamlining the bidding process;
- Increased institutional ability to tailor purchasing decisions to unique mission-related and regional marketplace dynamics; and
- Ability to reallocate procurement resources (human and financial) to activities that more directly affect access to, and the quality of, instruction and student support services.

State regulatory reform does not absolve public institutions from accountability in their purchasing operations. Full transparency can and must be maintained, given both the magnitude of the money expended in campus procurement and the obligation of these public institutions to be held accountable for their receipt of both state tax dollars for operating support (appropriations) and students' tuition dollars. Accountability and greater autonomy granted through regulatory reform are not mutually exclusive options. That is what makes the opportunity at hand truly momentous. In an era in which policymakers are pressing for improvements in higher education spending and college affordability, reform of states' procurement policies in higher education is a no-lose proposition.

# Study Objectives, Methodology and Limitations

The purpose of this study was three-fold. One purpose was to conduct an inventory of selected *state* procurement statutes, regulations and policies, as well as selected *institutional/system* policies and practices. Another goal was to conduct an assessment, in the view of campus procurement officers, of the effectiveness of these policies and practices and of opportunities for further cost savings in the procurement process. The third aim was to offer a set of observations and recommendations for consideration by key stakeholders. The central component of this study was an online survey of institutional procurement officers. This was supplemented by a more in-depth examination of three states that are making progress in reforming procurement regulations, along with a general review of the literature on procurement.

To this end, an online survey (see Appendix) was sent to 643 chief procurement officers at U.S. public four-year universities and public university systems. The survey was administered from November to December 2009 and yielded 117 responses, for an overall response rate of 18 percent. Of the 90 percent of respondents who specified the type of institutions they represented, the response rate was 27 percent for public doctoral/research universities (44 out of 165), 10 percent for public masters colleges/universities (27 out of 264), and 10 percent for public baccalaureate institutions (17 out of 177). This means that doctoral/research universities were overrepresented in the sample—with doctoral/research universities making up 49 percent, master’s institutions 30 percent, and baccalaureate institutions 19 percent. The response

pool included one special focus institution and one representative of a system administration.

Responses were received from 37 states plus the District of Columbia,<sup>3</sup> providing breadth of coverage from around the nation, though not universal coverage. Individual states were represented by just one or a very few respondents. As a result, responses were summarized for the sample as a whole; it was not possible to present reliable data on a state-by-state basis. Sixty-two percent of the respondents serve as the directors of purchasing/procurement at their institutions, while 16 percent have the title of chief procurement officer. Five percent serve as assistant or associate directors. Sixteen percent indicated another job title.

Huron Consulting Group, an independent consulting firm, conducted the online survey, compiled the survey results and provided analytic support. The report was written and prepared by AASCU and NAEP. As with any survey, caution should be made in extrapolating the findings to the general population of U.S. public universities.

<sup>3</sup>States include: Alabama, Arkansas, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Virginia, Washington, West Virginia and Wisconsin.

# Detailed Findings

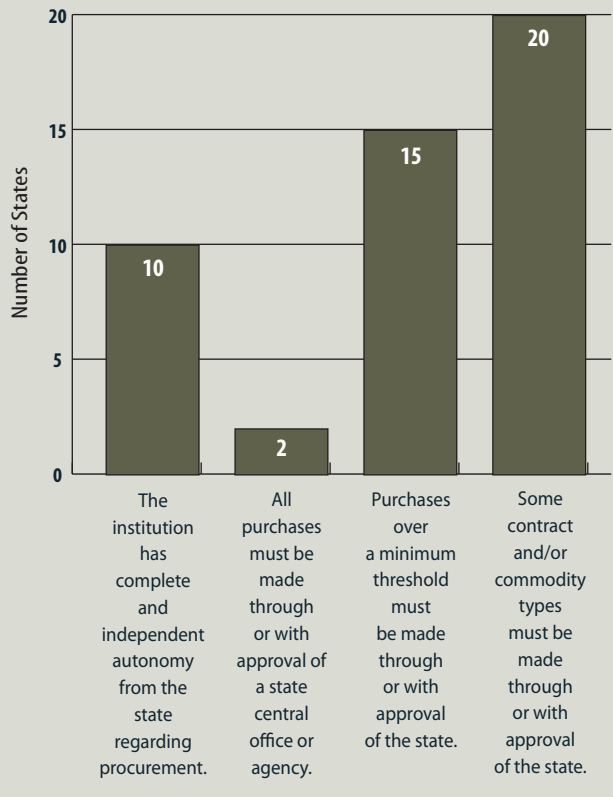
## General Description of State Procurement Statutes, Regulations and Policies

The first section of the survey collected factual information about selected state procurement statutes, regulations and policies. Most survey questions instructed respondents to “check all statements that apply,” thus producing responses to each question that total more than 100 percent. The survey also informed respondents that for the purpose of the survey, they should not consider university systems under the term “state.” (The survey addressed system policies in Section II, in combination with institutional policies.)

In order to gain clarity regarding the general authority exercised by states over institutional procurement decisions, survey responses were grouped and examined by state. All respondents from 10 of the 37 states represented in the survey indicated that their institutions have complete and independent autonomy from the state regarding procurement (see Figure 1). At the other extreme, responses from two states indicated that all purchases must be made through or with the approval of a state central office or agency. Twenty-five states fell somewhere between, with respondents specifying that purchases over a minimum dollar threshold must be handled through or with the approval of the state (15 states) and/or that some types of contracts or purchased items must be made through or with approval of the state (20 states). Thresholds requiring state approval for purchasing contracts were commonly cited in the areas of professional services, information technology/software and capital construction.

Survey respondents had the opportunity to convey institutional perceptions of a range of state policies with respect to competitive bidding, based on a set of predetermined items. As worded, some of these items afford institutions greater flexibility and autonomy, while others limit local control. For example, a majority of respondents (59 percent) indicated that they are permitted to participate in voluntary (non-state) cooperative purchasing agreements, also known as purchasing consortia, a policy that increases their

**Figure 1. General Authority Exercised by the State Over Institutional Procurement Decisions**  
(number of states)

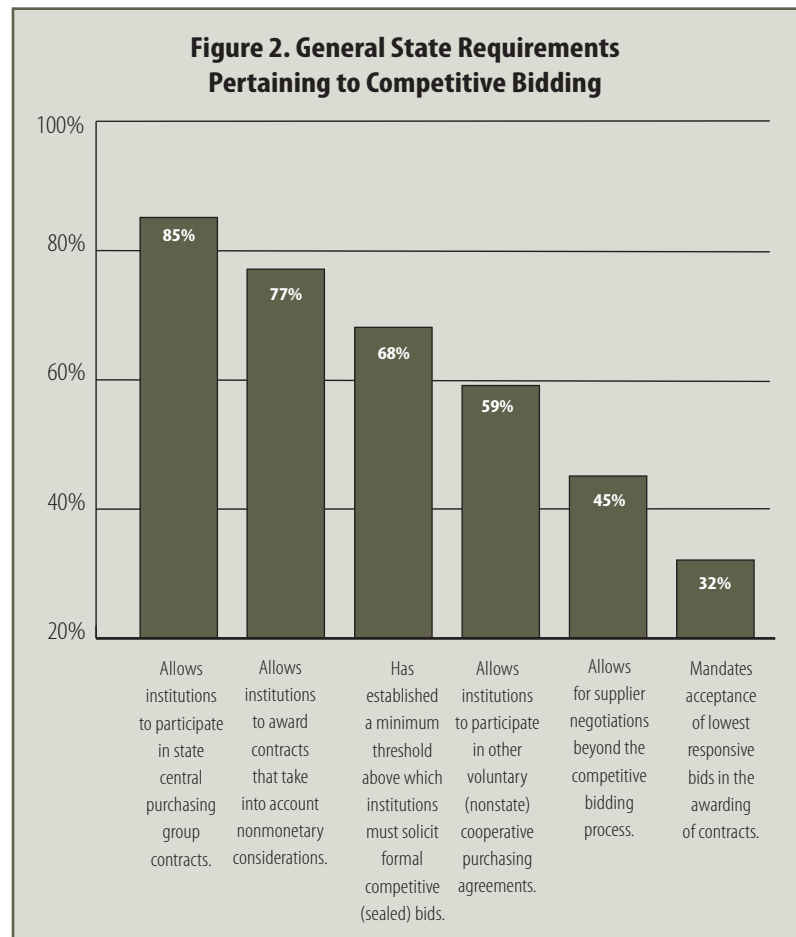


options. Thirty-two percent indicated that the state mandates the acceptance of the lowest responsive bid in the awarding of contracts and that nonmonetary factors cannot be considered—a policy that decreases their options. Figure 2 describes the complete distribution of respondents' responses.

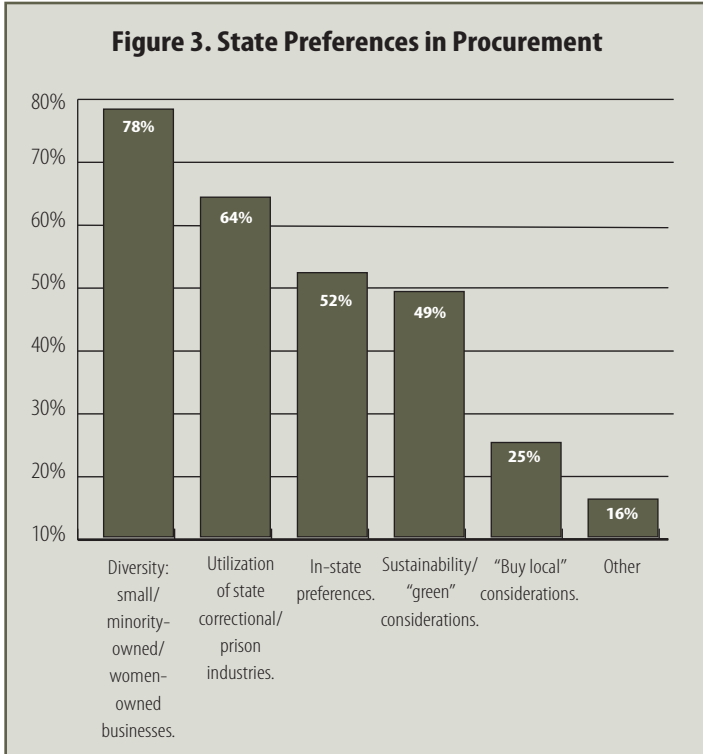
One way in which states exert influence over institutional procurement is through encouraging or requiring consideration of certain preferences in the awarding of contracts. Such policies are designed to promote specific positive outcomes, but if too prescriptive, they may create negative consequences for institutions, such as increased costs. Support for diversity (small, minority-owned, or women-owned businesses) was most often cited by respondents (78 percent), followed by utilization of state correctional industries (64 percent). A slight majority of respondents (52 percent) cited state-mandated preferences for in-state vendors (see Figure 3). Sixteen percent indicated other state-encouraged preferences, which often included those for businesses and industries employing people with visual impairments or other disabilities.

### General Description of Institutional/System Procurement Policies and Practices

The second section of the survey consisted of an inventory of selected institutional/system policies and practices developed within the confines of the state regulatory framework. Again, respondents were instructed to check all statements that applied.



There was wide variation among institutions regarding minimum dollar thresholds and required signoffs for procurement approval. Just under a third (30 percent) of respondents indicated that no approval was required above the level of chief procurement officer. More than a third (37 percent) specified that approval of a governing board was required for purchases over a certain level, while 20 percent required such approval by a vice president. Approval by the system office or president was rarely ever required (see Figure 4). Actual threshold amounts varied widely; there may be other stipulations affecting when approval must be sought, such as procurement of specific types of goods or services.

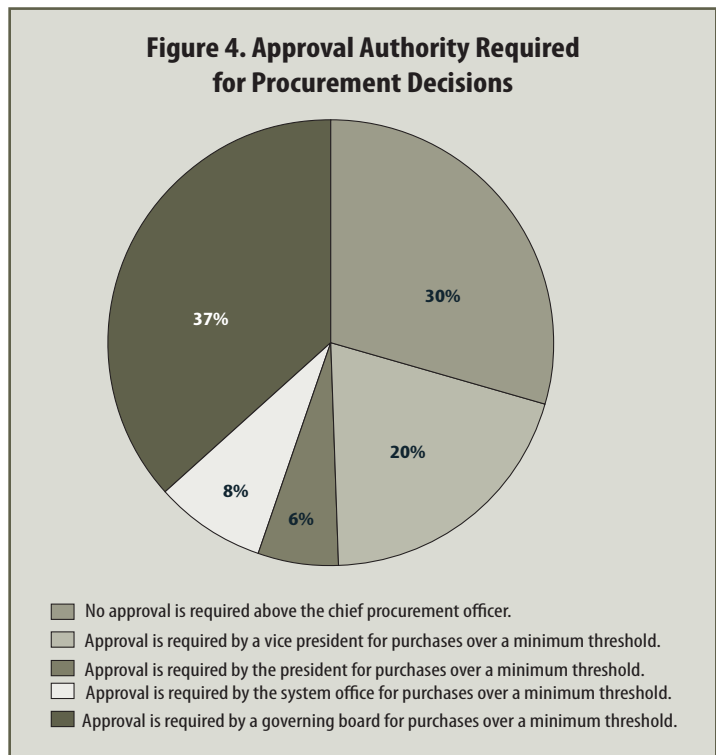


utilize software allowing electronic routing of requisitions, purchase orders and other common procurement forms. Other types of software tools are used far less often; these include software that analyzes and categorizes spending by commodity, allows users to search supplier catalogs, electronically supports various aspects of the sourcing and bidding process, and supports various aspects of contract management (see Figure 5).

Nearly three quarters (74 percent) of survey respondents reported that their institution utilizes cooperative purchasing contracts. When asked to report the approximate annual dollar amount spent through such contracts, responses varied from as little as \$1,000 to as much as \$500 million, with an approximate median expenditure of \$750,000.

In terms of competitive bidding, nearly all institutions or systems (88 percent) have established a minimum dollar threshold above which formal competitive (sealed) bids must be solicited. These dollar amounts vary tremendously, from a low threshold of \$5,000 or less to a high of over \$100,000; typical thresholds are in the range of \$25,000–\$50,000. Eighty percent of respondents indicated that they have an institutional or system policy allowing the awarding of contracts that takes into account nonmonetary considerations (product/service quality), while 33 percent have a policy mandating the acceptance of lowest responsive bids.

Survey respondents had the opportunity to identify which common procurement tools their institutions have in place, based on a predetermined list. Nearly all (93 percent) utilize a procurement card program, and 85 percent





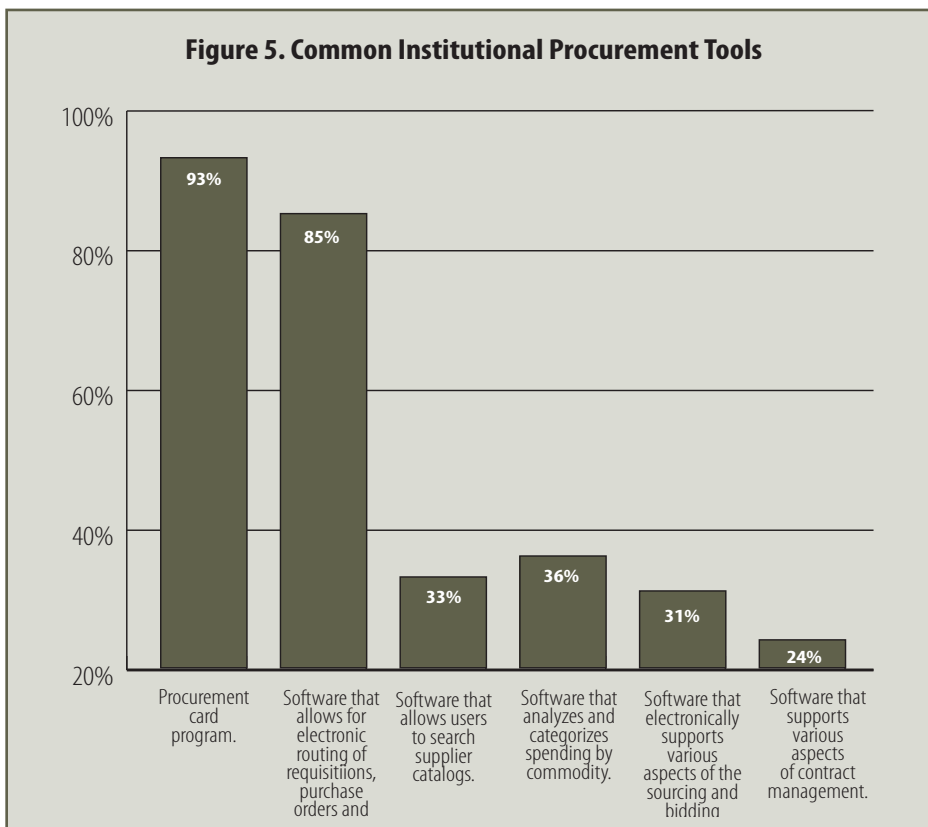
Institutions participate in cooperative purchasing agreements to purchase various goods and services. Three areas stand out, cited by a sizable majority of respondents: computer/information technology/communications hardware (81 percent), scientific goods and services (72 percent), and office supplies (71 percent). For all other items, fewer than half of respondents obtain them through cooperative agreements (see Figure 6).

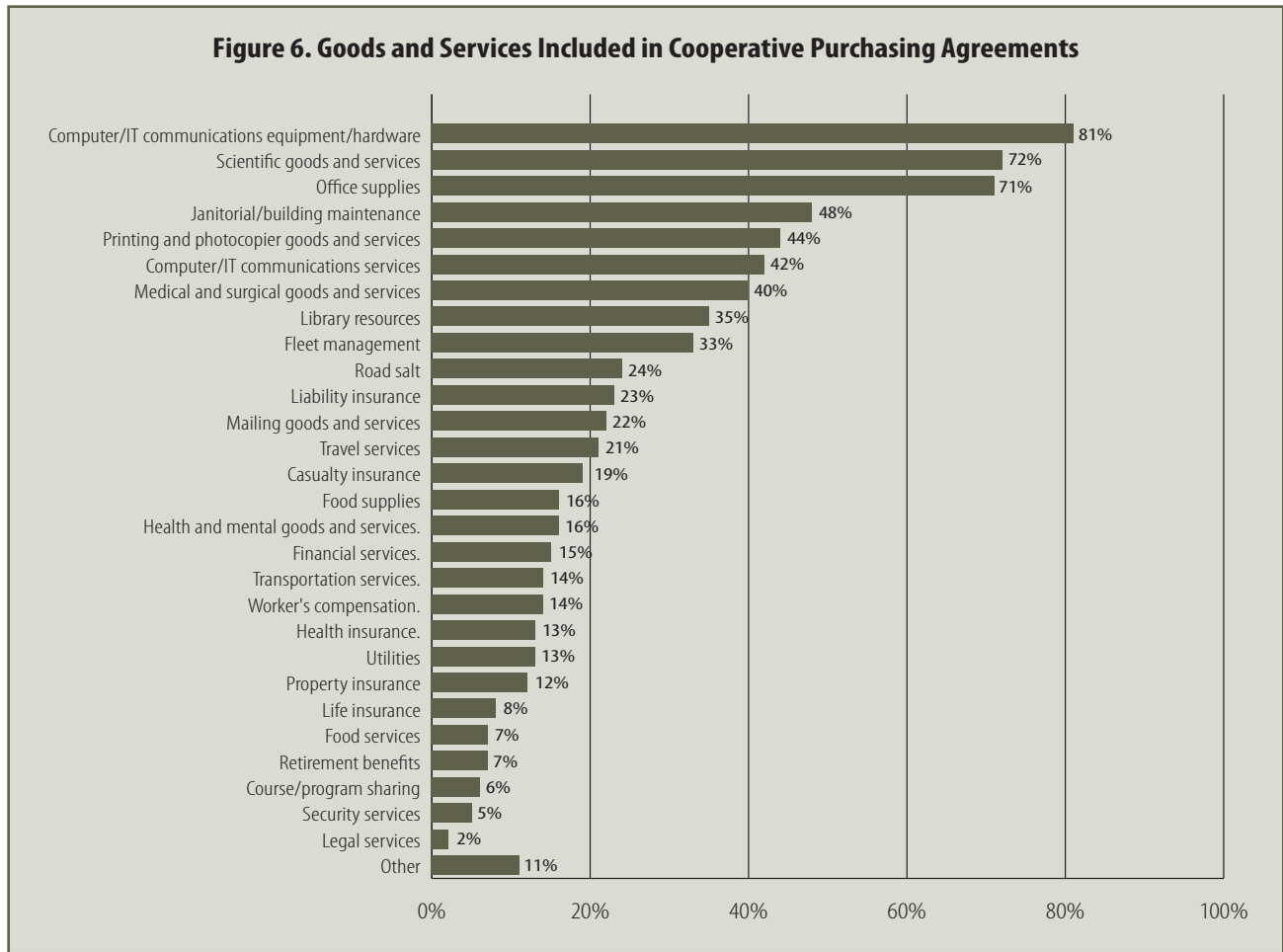
## Assessment of State, System and Institutional Procurement Policies

The third section of the survey asked respondents to assess the impact of state procurement statutes, regulations and policies on institutional attempts to contain costs. The fourth section asked separately

about the impact of institutional procurement policies and system procurement policies on cost containment efforts. In each case, respondents chose from a set of preset options: “extremely detrimental to your efforts to contain costs,” “somewhat detrimental to your efforts to contain costs,” “neutral/have no impact on your efforts to contain costs,” “somewhat helpful in your efforts to contain costs,” and “very helpful in your efforts to contain costs.” Figure 7 combines the responses to these questions.

Clearly, respondents were far more likely to attribute detrimental effects on cost containment to state procurement policies than to either system or institutional policies. A slight majority (52 percent) assigned either “somewhat” or “extremely detrimental” effects to state procurement policies, compared to 28 percent describing negative consequences for institutional policies and 29 percent for system policies. Few respondents (5 percent) asserted that state policies have a neutral impact on cost containment, while about 20 percent were likely to view institutional and system policies in this way. At the positive end, differences were present but were not as large: 43 percent of respondents felt that procurement policies in their states have a helpful impact on cost containment compared to the 50 percent who rated system policies in that way and the 53 percent who rated institutional policies positively. In terms of rating averages, where 5 = very helpful and 1 =





extremely detrimental, state policies averaged 2.93, system policies 3.23, and institutional policies 3.33 in terms of their impact on cost containment.

While a clear pattern emerges from these data, it is not a picture of polar opposites among policy-setting levels. In fact, at both the state and the institutional/system levels, respondents were able to identify both barriers to cost containment, as well as positive developments. Key findings from several open-ended questions are presented here, with selected verbatim comments from the survey to illustrate these items.

**Barriers Imposed by the State**

In terms of barriers to cost containment imposed by state procurement statutes, regulations, and policies, respondents had much to say. Nearly half of all respondents (47 percent) offered a response to an open-ended question on this topic.

A common area of concern was bid thresholds that are too low. The perception is that this imposes excessive work, creates delays in purchasing, and produces no real benefit. Bid thresholds as low as \$1,000 were cited.

Many respondents felt that requirements to follow certain state preferences prevent them from getting

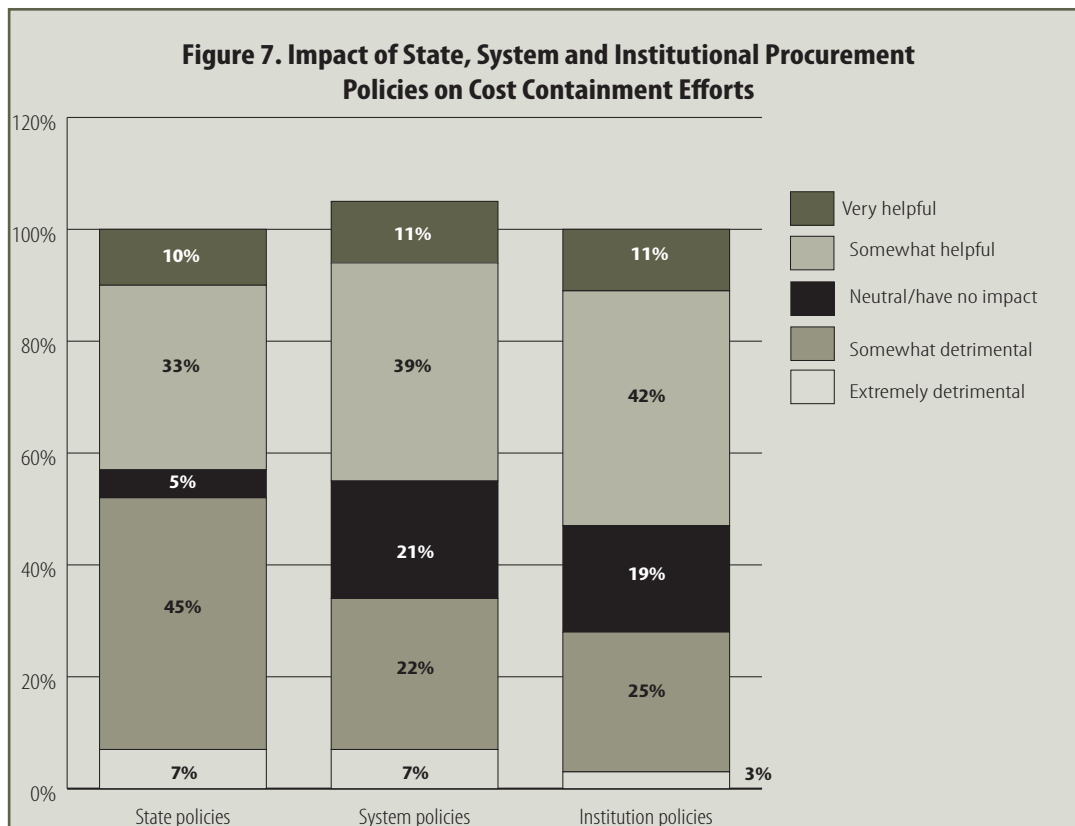
the best price, and their assessment may be correct in terms of short-term monetary goals. However, such preferences were put into place to meet specific nonmonetary goals thought to have broader, longer-term benefits for the state. Respondents most frequently mentioned minority-owned businesses and corrections industries, and less frequently referred to in-state preferences that do not allow them to take advantage of contracts set up by other states. For example:

- *We have a goal of 25 percent Minority Business Enterprises (MBE) subcontracting on most significant contracts. There is a statutory obligation to make 10 percent of annual spend with registered Small Businesses, and a mandate to purchase furniture from correctional industries.*

state contracts hinder cost containment because they prevent competitive bidding for certain goods and may prevent institutions from buying locally, thus reducing the possibility of obtaining the best prices for goods and services. Also, this policy does not allow them to tailor contracts to fit the unique needs of higher education. In addition, some states add administrative fees to state contract awards, adding to costs rather than reducing them. For example:

- *The state receives the rebate check for PCard purchases. The state receives a percentage of all statewide contracts we are mandated to use. The state charges \$199.99 for suppliers to be on the automatic e-mail notification list for competitive bids.*
- *The state mandates use of its e-procurement system, which carries expensive transaction fees of 1 percent to the supplier and 1 percent to the ordering agency.*

A number of respondents indicated that mandated



Some respondents indicated that consortium buying is prohibited or restricted in their states. Several specifically cited their inability to participate in Educational & Institutional Cooperative Purchasing (E&I), a not-for-profit buying cooperative

established by NAEP members to provide goods and services to members at the best possible value. For example:

- *Consortium contracts, while technically allowed, are so complicated and difficult to follow, not one institution really uses the law.*
- *Our state does not recognize E&I contracts as they do not meet the bid requirements of the state.*

Many survey respondents commented passionately and at length about bureaucratic “red tape,” and the examples provided here only scratch the surface. Respondents were concerned about the added time and money required to meet many and varied state regulations and by the apparent uselessness of many of them. For example:

- *At times we have been required to provide reports to various state agencies. Many times I have the feeling that all the time spent preparing reports is wasted because they serve no value and/or no one looks at them.*
- *Many state statutes require the vendor to certify things such as registering with the state election board, disclosing what business they do with Iran, environmental issues, and so on.*
- *We are now REQUIRED to obtain a copy of a bidder’s EEO policy before they can be awarded a contract, and they have to certify on a state web site that they do not hire illegal aliens, and a Contract & Grant Disclosure & Certification Form for awards over \$25,000 to make sure the vendor is not related to someone in the state government. If the answer is yes, all we do is report it (on-line). As far as I can tell, no one even looks at the report.*

- *There are a multitude of laws that we must comply with, addressing state lobbying, worker’s compensation and disability, consultants, public officers, vendor responsibility, diesel fuel, and so on.*
- *State rules include the following burdensome processes: (1) notification to unions when contracting for ANY service exceeding \$25,000; (2) approval by the State for any RFP (as opposed to a bid); (3) a cost benefit analysis comparing contracting out to in-house work, for ANY service contract exceeding \$25,000, and a justification memo supporting the decision and (4) rules requiring external evaluators on RFP committees.*

A few respondents commented specifically on state regulations pertaining to construction. They cited cumbersome bid and award processes for construction, renovation, and remodeling projects, or mentioned that prevailing wage statutes often led to higher wages than would otherwise apply, adding to costs. For example:

- *Construction bidding laws require complex and time consuming processes beginning at the \$50,000 level. It would significantly improve efficiency to raise limits and allow for more focused local competitive bidding.*

Other types of barriers to cost containment were mentioned less often. For example:

- *Legislation passed in response to lobbyists’ requests continue to drive higher costs for the institution. For example, the plumbers union lobbied the state to establish legislation requiring a higher level of contractor license to perform boiler inspections. Now we have to outsource an operation that was handled effectively by our HVAC staff for years as a part of their normal responsibilities.*

- *Purchasing exemptions are old and have not kept up with the times. For example, advertising in newspapers is exempt, but not on the Internet.*
- *Printing law that requires everything that is printed (ink on paper) to be bid—no matter the cost unless produced by a university owned print shop.*
- *A new law allows reverse auctions. (In a reverse auction, instead of buyers competing to purchase goods, sellers compete to obtain business. This typically leads to lower prices over time.)*
- *The state is working to pass legislation to allow evaluation criteria points for in-state suppliers.*
- *The state allows constituent institutions to ignore state term contracts if it can be demonstrated that a better price can be obtained.*

### Positive Developments in the State Regulatory Environment

The portrait of state regulatory environments is not entirely dismal from the perspective of institutional procurement officers. One in five survey respondents (21 percent) offered a positive comment about how their state facilitates institutional efforts to contain costs. However, this is fewer than half the number of respondents who volunteered something negative about their state policies. Many of these positive comments pertain to very recent changes in their states, or to changes that have not yet taken effect.

With the bidding threshold such an important factor in the institutional procurement process, several respondents were pleased that their state had raised this threshold in recent years, allowing them to handle small purchases more efficiently. However, actual dollar thresholds vary widely among states. For example, one state noted a competitive bid threshold that was raised from \$25,000 to \$50,000; another state is considering raising it from \$50,000 to \$150,000.

Other respondents described improvements in the state purchasing system. They cited greater flexibility in state policies and more adaptability to institutional needs. For example:

- *The state recently began requiring a “Request for Response” from state contract vendors for an informal competitive process that allowed some competition among “non-competitive” contracts.*
- *Piggybacking on other state or public entity contracts for larger fiercely competitive products or services is quite helpful, especially since our staff size has not grown in over 10 years and our systems have not*

Two respondents mentioned that they can now participate in collaborative purchasing efforts. This was described as “a welcome relief to the procurement process,” resulting in better discounts.

A few respondents commented on recent or future “greater autonomy” for institutions, a change they hope will bring about both cost savings and reduced red tape. They welcome the opportunity for more freedom and independence from state central purchasing systems.

Similarly, a few respondents commented on the energy-related benefits of being part of the state system, including energy conservation and energy efficiency savings. For example, one respondent indicated that the state has a list of preapproved vendors for energy-savings projects.

Several respondents did not cite specific recent developments, but expressed a generally positive perspective on being part of a state contract. They focused mainly on the opportunities for cost savings through participating in state purchasing. For example:

*improved while the size of our college has doubled.*

- *All commodities on the state contract are the lowest and best prices available from any source offering that commodity at the same level of quality or service.*

Finally, one respondent took a middle ground in describing the state regulatory environment, saying:

- *The statutes and regulations do keep some order to what we do. The process is well defined, although it can be confusing or overwhelming at times.*

### **Barriers Imposed by Institutional Policies**

Approximately a quarter of respondents (26 percent) responded to an open-ended question about institutional or system barriers to cost containment efforts, far fewer than the 47 percent who identified state barriers. Some responses included quite harsh criticisms of institutional practice and policy (or lack thereof), while several comments reflected more on institutional difficulties brought about by state regulation.

Several survey respondents described a situation of uncontrolled spending at their institutions, a way of life that makes it difficult to control costs. They described what is sometimes pejoratively referred to as the “culture of higher education” with its traditionally decentralized authority and a low priority placed on business principles. For example:

- *The budget process encourages spending instead of saving. Budget appropriations are based on historical trends rather than actual anticipated needs. Departments spend whatever is budgeted for their use.*

Combined with the decentralized environment, the use of a purchasing card contributes to the spending problem. For example:

- *It permits end users to purchase items through any vendor who accepts them, rather than requiring them to be forced to use specific vendors that have lower prices.*

Combined with the factors cited above, the absence of certain policies further contributes to spending. One respondent mentioned the absence of policies regarding certain types of information technology, and another noted that approval levels for purchases are not clearly defined, saying:

- *We have no policies in place for cell phones, furniture, computers, etc. As long as the department has funds available, they may buy what they want . . . whether they need it or not.*

Several respondents cited an opposite set of barriers: those due more to excessive regulation and red tape than to lack of it. They stated that too many approvals are needed, that too much documentation/reporting is required, and that outdated and unnecessary rules are in place, all slowing down processes and adding excessive administrative time to purchasing. In particular, a few respondents objected to “micromanagement” by their board of trustees.

A final set of institutional barriers relates to lack of adequate software and other tools to improve the procurement process and help hold down costs. For example, respondents noted that current software has limited capabilities and does not allow them to access and analyze institutional spending data. One respondent mentioned the need to develop an electronic mechanism for inventory tracking and processing and the need to purchase handheld scanners to help streamline the inventory auditing function.

## Positive Developments in Institutional Policies

Nearly a quarter (22 percent) of respondents indicated a positive development with respect to institutional or system procurement policies that facilitate cost containment. Most of these comments directly described institutional/system policies, while several reflected to some degree changes in state regulation that affect institutional policies.

Perhaps the most innovative developments pertain to implementation of e-procurement tools. Respondents mentioned implementation of SciQuest e-procurement tools, use of reverse auction software and online Purchase-to-Pay (P2P) systems that offer strategic solutions to manage spending. Beyond cost savings, they noted enhanced catalog offerings and greater internal efficiency and work flow.

Several respondents pointed to the leveraging power gained from campuswide and systemwide purchasing, leading to reduced costs and other benefits. For example:

- *The system campuses are beginning a strategic sourcing committee that will negotiate with major vendors utilizing the total spend of our campuses to get our costs down.*
- *The campus uses HP printers almost exclusively, though there is no policy requiring it. The HP Edge program has provided several printers and toner cartridges FREE. Whenever we have enough points for a printer, they are used for the next requisition for a printer that comes through—regardless of the department.*
- *Centralized bidding of categorical goods and services regardless of state requirements. Requiring large suppliers to recognize the institution's national presence, and where possible, global presence, for the*

*purpose of discounting and pricing. Requiring all locations of the institution to purchase from these contracts.*

Other respondents noted their campuses' active interest in cost containment, especially as they face the realities of reduced budgets. Given tight finances, they are open to new ideas and routinely utilize good practices in order to find the best prices. These respondents described researching vendors, comparing cooperative prices with other prices, and looking for low cost and best value. One noteworthy area of savings is in energy conservation. Other positive developments include use of procurement cards, leading to increased timeliness of orders and reduced stockpiling of supplies; increasing bidding thresholds where various approvals are required; and the privatization of certain functions and services.

## Opportunities for Improvement at the State, System and Institutional Levels

In two additional open-ended questions, respondents were given the opportunity to make recommendations for reforms in state procurement regulations (Section III of the survey) and to improve institutional or system procurement policies (Section IV). Approximately 38 percent of respondents offered suggestions for improvement at the state level, and 27 percent did so for the institutional/system level.

The recommended areas for change at the state level predictably reflect the barriers described earlier, further articulating respondents' desire to be free from statutes, regulations and policies that they view as detrimental to their efforts to contain costs. Most often, respondents expressed a desire for greater autonomy

in the procurement process. Some statements were general in nature, expressing the straightforward desire for more flexibility and greater local control; this would not mean complete separation from state purchasing, but rather the option to decide if and when they wanted to participate in state contracts. Other comments were more specific, such as a call to exempt all purchases of scientific and technical goods from state regulations or for the ability to conduct reverse auctions. A few respondents argued that it is inappropriate to subject higher education to the rules and regulations of the state procurement system. For example:

- *Institutions of higher education would be well served to be thought of in another category, separate from traditional state agencies. Our mission for education and research creates unique needs that should allow for more flexibility in partnering with other agencies. Heavy oversight from the government only bogs down the process with further bureaucracy.*
- *Colleges and universities do not have the same needs as the justice system, or roads departments. The Board of Regents could provide more cost efficient and practical guidelines for our funds than state government.*

A number of survey respondents recommended that the dollar bid threshold for competitive bids for goods and services should be raised. Others wanted the authority to participate in purchasing consortia. Finally, a few respondents expressed general frustration, but offered no suggestions. For example, one respondent called the situation “hopeless,” and another suggested the need to “blow up” what the state is doing in procurement.

Turning to recommendations for change at the institutional level, responses again reflected the primary barriers described earlier. First, several recommendations focused on implementing

electronic procurement systems and tools. In these respondents’ estimation, electronic processing from start to finish, including use of electronic catalogs and an electronic bid process, would result in more cost-effective contracts, better data tracking, and more useful reports. One respondent cautioned that implementation of such a system is not simple, saying the institution would need to, “Provide the resources needed in the IT department to develop and implement the system with step-by-step detailed training for the procurement department as well as college-wide; (2) write instructions in user-friendly language rather than ‘assuming’ that end-users are technologically savvy; and (3) listen to the end-users to meet their needs, rather than telling them this will work for them.”

Another group of recommendations focused on developing or tightening institutional procurement policies. In one respondent’s view, this means “coupling savings, expense, and budget processes so savings can be had without negatively impacting programs.” Several specific actions were suggested:

- Better budgeting
- Greater departmental accountability
- Mandated use of systemwide contracts
- A clear policy for making small purchases
- Requiring end users to utilize specific vendors
- Standardization of products, such as cell phones and telephones
- Standardization of travel, such as use of particular travel agencies

A few respondents mentioned a range of other topics, such as use of purchasing consortia, raising bidding thresholds, use of reverse auctions, and so on. However, such strategies may be limited by current state policies.



# Recommendations for States and Systems/Institutions

The current era of severely constrained state budgets, insufficient state investment in public higher education and burgeoning student enrollments requires all stakeholders to make the best use of scarce fiscal resources. This study identifies several important areas in which state and system/campus procurement policy can be improved in order to maximize both the cost and quality dimensions associated with the billions of dollars of goods and services purchased by America's state colleges and universities.

A key feature of this overhaul of procurement policy should be a reinvigorated compact between states and their public colleges and universities. A renewed alliance will help to ensure accountability for spending of state-appropriated taxpayer monies and students' tuition dollars, while simultaneously leveraging each dollar utilized in the procurement function. By considering and implementing the recommendations below, state policymakers and system/campus leaders alike can make meaningful contributions toward enhanced fiscal stewardship and accountability, thus leading to greater efficiency, productivity, cost containment and quality within public higher education.

## Recommendations for States

### 1. Provide greater autonomy to systems and institutions regarding procurement policy.

Currently only ten of the 37 states represented in the study have complete autonomy over this administrative function, according to survey

respondents. Greater autonomy from state statutes, regulations and policies, combined with appropriate accountability measures, will afford institutions the flexibility they need to maximize cost savings through greater leveraging of resources, reduced administrative burden and an enhanced ability to tailor purchasing decisions to reflect unique institutional considerations.

### 2. Review, and if warranted, increase the minimum dollar threshold for purchases requiring state approval and adjust minimum thresholds involving formal competitive (sealed) bids.

Approximately half the institutions surveyed must seek state approval either for purchases above a state-mandated minimum dollar threshold (33 percent) and/or when certain contracts and/or commodities are used (33 percent). Increasing approval thresholds and/or transferring this responsibility to institutional or system governance boards would reduce administrative burdens, improve efficiency and lead to increased opportunities to achieve cost savings.

### 3. Eliminate state mandates requiring institutions to accept the lowest responsive bids in the awarding of contracts.

Most institutions surveyed (77 percent) report that nonmonetary considerations can be taken into account. However, a significant proportion of institutions could improve cost savings over longer durations by considering other factors, such as the quality of products/services and servicing.

**4. Make participation in state purchasing contracts voluntary; institutions may opt into these contracts when it is advantageous to do so, but opt out of them when better options can be identified.**

Many of the surveyed institutions appreciated the improved leveraging such contracts provide; yet others indicated consternation that institutions' required participation in such contracts often comes with associated costs that states pass to institutions. Allowing voluntary participation in state contracts will help assure that institutions consider the broadest range of costs and benefits relevant to each purchasing decision.

**5. Allow institutions to participate in group-purchasing consortia.**

A full four in ten (41 percent) of institutions surveyed indicated the presence of state policies that restrict or inhibit their ability to participate in voluntary (non-state) cooperative purchasing agreements. Actively leveraging institutional purchasing power through such consortia has been shown to generate significant cost savings.

**6. Allow institutions to conduct negotiations with suppliers subsequent to the competitive bidding process.**

Over half (55 percent) of institutions surveyed indicated state restrictions on their ability to engage in post-bid negotiations. Removal of this constraint would increase institutions' ability to tailor prospective purchases to better meet key cost, quality, and servicing objectives. Universities that develop customized business processes tailored to their unique requirements have obtained significant savings beyond traditional contracting techniques. Committed strategic supplier partnerships require significant dialogue between the parties,

sophisticated negotiation techniques and careful monitoring over time.

**7. Review, and where warranted, relax state preferences or mandates involving the awarding of certain contracts.**

Such considerations often pertain to the required utilization of small/minority-owned/women-owned businesses, the use of state correctional/prison industries, sustainability/"green" factors, "buy local" considerations, and in-state preferences. Clearly, such action should be taken with prudence, recognizing the value of state objectives relating to many important qualitative (non-cost) factors. However, a cost-benefit analysis of such state preferences or mandates may reveal instances in which adjustments should be made due to changes in the marketplace or based upon key cost and quality issues.

**8. Enable institutions to participate in reverse auctions, whereby vendors compete to obtain business as opposed to the traditional method of buyers soliciting competitive bids for the purchase of goods/services.**

Such auctions have shown to enhance both cost savings and quality in procurement.

**Recommendations for Systems and Institutions**

**1. Review, and where warranted, amend overly burdensome or outdated institutional policies regarding the approval of procurement decisions over a specified minimum dollar threshold.**

Institutional approval requirements vary tremendously with respect to organizational hierarchy and threshold amounts. While both the approval and threshold functions should continue to serve as appropriate accountability measures,

adjustments of such policies may lead to increased efficiency without affecting either accountability or transparency.

**2. Evaluate the prudence of, and where reasonable adjust, institutional policies that mandate the acceptance of the lowest responsive bids.**

As is the case with state policy, most institutions surveyed (80 percent) allow for nonmonetary considerations in the award of purchasing contracts, but this is not universal. Providing greater flexibility in considering factors other than cost may generate additional long-term savings.

**3. Where state policy allows, seek to fully utilize group-purchasing consortia.**

The survey data show that institutions are using such arrangements to reduce spending on a vast range of products and services. Using purchasing consortia was rated as the second-highest source of savings in AASCU's previous study on cost containment. Stakeholders in institutional procurement should consistently and proactively pursue savings using consortia to purchase an ever-broadening range of products and services.

**4. If possible under state law, consider greater participation in reverse auctions.**

These auctions continue to produce increased purchasing power for institutions utilizing them.

**5. To the extent that institutional resources permit, further analyze institutional procurement expenditures through greater utilization of e-procurement tools.**

The survey data show that most respondent institutions are using procurement card (PCARD) programs and software tools that facilitate the procurement process related to the electronic

routing of requisitions, purchase orders and other common procurement forms. However, only one quarter to one third of responding institutions are using each of the three other types of e-procurement tools that allow for such activities as the analysis of commodity spending by category and that provide support for various aspects of the sourcing, bidding and contract management processes. Institutional administrators are encouraged to examine the opportunities for systemic improvement—efficiency, productivity, cost savings, etc.—that such software tools may offer.

**6. Review current system/institutional procurement rules to develop a cohesive and comprehensive policy. This may include simultaneously streamlining and augmenting policy.**

The survey data identify a number of weaknesses in institutions' ability to improve the cost, quality and servicing dimensions within their procurement operations. In some cases, the administrative process is duplicative, laden with outdated or unnecessary rules. In others, the opposite is the case, with unclear protocols on required purchasing approvals and a lack of sufficient policies regarding the purchase of key goods and services. A comprehensive review of institutional procurement policies, leading to an updated set of standardized and centralized guidelines, can simplify the purchasing process while promoting campuswide accountability.

**7. Build a campus culture of procurement accountability.**

Much procurement policy is designed to maximize the return on the institutional dollars used to purchase goods and services. Beyond policy, however, lies further opportunity for

campus leadership to convey to all levels of the organization the importance of being vigilant in seeking cost containment for *all* purchases made using institutional resources. A visible and concerted effort to create a campus culture that recognizes the crucial role of informed procurement decisions can be critical in cutting costs, enhancing revenues and reinvesting scarce resources. Further, policy directives should be enforced to ensure that administrative purchases are made through established contracts that reduce maverick spending.

**8. Ensure that system and institutional procurement officers receive adequate training and ongoing guidance regarding current state procurement statutes, regulations and policies.**

The survey data revealed that in some cases, respondents from the same state interpreted existing state procurement policy differently. Opportunities to contain costs may be lost as a result of differing understanding of state policy. From an accountability standpoint, institutions should ensure that state policies affecting purchasing decisions and protocols are being appropriately followed. Likewise, procurement officers should receive adequate initial training and continued professional development to ensure that they are aware of state procurement policies, especially in an era when changes are occurring in this policy domain.

# Higher Education Procurement State Regulatory Reform Illustrations

Outlined below are three relatively recent examples of how states have made progress in reforming procurement regulations affecting public colleges and universities, in order to provide cost savings, increased flexibility, improved purchasing power, and better quality of products and services. Note that each state's regulatory environment is different, as is its impact on postsecondary procurement.

## Colorado

Effective July 1, 2004, H.B. 04-1009 allowed the governing board of each public higher education institution to opt out of the regulatory requirements of the state motor vehicle fleet system, the state risk management system and the state procurement code. The law was limited to those three areas, and institutions remain bound by the State of Colorado Fiscal Rules.

The president of the University of Colorado System (CU) was the first to respond, commissioning a task force to examine existing rules and regulations; identify what worked and did not work; determine the advantages, disadvantages and costs of creating a university-specific procurement system; and recommend whether to exempt the university from the state procurement system. After completing its review, the task force recommended seeking such an exemption. In January 2005, the CU Board of Regents voted to exempt the university from the state procurement rules, and effective July 1, 2005,

CU became the first institution in the state to attain such exemption. According to the *Procurement Service Center Communicator* (July 2005), CU's approach was "to use existing State procurement rules as a foundation, researching rules of other similar universities and drawing on them to create the best system for CU." The goal was not to be totally independent of the state system, but rather to find a better way to work with the state. The most significant change was to increase bidding thresholds to give the purchasing agent more flexibility and to better match the university's business needs and procedures.

Several other institutions have followed CU, opting out of the state procurement system and largely adopting CU rules. These include the Colorado School of Mines, Colorado State University, Fort Lewis College, Mesa State College and the University of Northern Colorado. However, other institutions have not followed CU's example, probably due to lack of support at the campus level and the perception of limited opportunity for gain. These include Adams State College, Metropolitan State College of Denver, Western State College and the Colorado Community College System.

Regarding results, University of Colorado officials report that the institution has experienced substantial benefits from its decision. CU estimated a savings of \$800,000 on office supplies in the first year after opting out of the state process, and it projected an annual saving of \$600,000 on scientific supplies.

Nonfinancial benefits include the fact that CU no longer has to get permission to participate in a purchasing group and can expect better service from vendors that meet its specific needs. Furthermore, by opting out of the state system, the university is better protected from changes in gubernatorial priorities that may occur with changes in the party affiliation of the governor and that, in turn, may affect procurement rules. Despite the progress, however, CU officials note that they are still hindered by having to follow state fiscal rules, and assert that if the system were no longer subject to these one-size-fits-all rules, there could be even more significant benefits for the university.

## **Kansas**

Like many of the nation's public postsecondary institutions, Kansas' four-year state universities have been restrained by regulations that drive up costs in their procurement operations, inhibiting flexibility to leverage purchasing-related spending and leading to longer delivery times for products and services. The state's six Regents universities—those affiliated with the Kansas Board of Regents—have effectively served as state agencies, reporting to state government and subject to the same procurement regulations and requirements as other agencies.

Until 2010, the state's public universities were required to use state contracts, which ruled out participation in purchasing consortia. Rules further limited their capacity to tailor contracts to their institutional missions or to strategic procurement priorities, as well as to consider local and regional marketplace and geographic dynamics. For example, until the early 2000s, the state's public universities were required to utilize one state-run printing operation, a unit that was originally created to support the state's legislative needs. To cover operational costs, the state printing operation added a surcharge for printing services used

by the universities, thus driving up costs and adding considerable delay. Further, the state's agencies and its public universities often were required to use multiple, narrowly tailored contracts to perform rather simple tasks associated with routine business operations.

Recognizing the opportunity to improve the procurement environment on the state's public university campuses, the Kansas Legislature passed S.B. 52 in 2006, allowing the Kansas Board of Regents to select one research institution and one regional state university to participate in a three-year pilot project freeing them from state procurement regulations and thus allowing them greater flexibility to seek improvements in cost, process and quality. The legislation's resulting statute, KSA 76-769, has proven very effective according to officials at the two pilot institutions, the University of Kansas (KU) and Fort Hays State University (FHSU). Administrators at both universities have reported substantial gains in reducing costs, improving quality and reducing processing times since the program began on June 1, 2007. KU officials conservatively estimate that the university has saved \$1.76 million in the first two years of the three-year pilot program, and has cut procurement processing times by an average 40 percent.

At Fort Hays State, the increased flexibility has cut up to 11 days off the bidding process. The flexibility generated approximately \$42,000 in cost savings related to information technology and office supplies in fiscal 2009. Fort Hays, a geographically remote university, can now use local merchants to optimize its purchasing efforts while retaining the ability to participate in state contracts if it chooses. No longer having to use only state-approved contractors has led to cost savings, faster purchasing and improved relations with the local business community. Further, the university has been able to eliminate its campus

warehouse operations thanks to a restructured portfolio of vendors able to provide just-in-time delivery of commodities.

With the original legislation set to expire in June 2010, the legislature in March overwhelmingly passed H.B. 2433, making the pilot program permanent and extending to all of the state's public universities considerable procurement autonomy from the Kansas Department of Administration.

## Virginia

Procurement reform in Virginia proceeded in two major steps over a period of two decades. A pilot procurement program, which laid the foundation for reform in the mid-1990s, has continued to the present day. This was followed by more extensive deregulation of higher education a decade later. In both instances, it was a state fiscal crisis, leading to reduced state appropriations for higher education, that helped motivate legislators to provide some relief from fiscal rules to public colleges and universities.

Responding to higher education leaders who had identified procurement as a problem area, state legislators initiated a "Pilot Decentralization Program" in 1995 through their appropriations process. The program was voluntary and applied only to procurement. Participants, who were freed from the state procurement manual, set up an association and created their own procurement manual. Eight institutions formed the Virginia Association of State College and University Procurement Professionals (VASCUPP); the association continues to this day, currently with nine members out of the 16 public four-year institutions in the state.

The early 2000s witnessed continued institutional efforts to achieve increased autonomy, along with a new governor who placed high priority on higher

education but faced a serious budget crisis. In this context, after complex negotiations between legislators and higher education leaders, the "Restructured Higher Education Financial and Administrative Operations Act of 2005" (H.B. 2866 and S.B. 1327) was passed, establishing a framework under which individual institutions could restructure. Three levels of autonomy were set up, designed so each institution could attain a level of financial and administrative autonomy appropriate to its financial strength and ability to manage operations upon satisfaction of certain conditions. All institutions, including community colleges, could achieve Level I status if they so desired, which allowed greater autonomy in certain business practices. At the other end, Level III status would require a Triple A bond rating, among other qualifications, and the statute was written initially so that only the University of Virginia, the College of William and Mary, and Virginia Tech could qualify. Level III allowed greater autonomy in six financial and administrative areas, including procurement. In 2007, additional legislation offered a plan for the remaining universities to achieve a middle level of autonomy—Level II status—if they chose to and if they qualified.

Negotiations with the state followed, and the three Level III institutions gained autonomy in capital outlay and construction, leasing, finance and accounting, human resources, information technology and procurement. They developed written policies on how to conduct each functional area, and this developed into a management agreement with the state that took effect on July 1, 2006. *The Purchasing Manual for Institutions of Higher Education and their Vendors*, originally submitted in 1995, was improved and became the governing manual under the Restructuring Act, with the most recent revisions made in 2009. This document, in conjunction with *Rules Governing Procurement of Goods, Services,*

*Insurance, and Construction by a Public Institution of Higher Education of the Commonwealth of Virginia*, now governs procurement for the three Level III institutions, plus colleges that achieved Level II status after July 2008. In return for this greater autonomy, institutions are required to meet certain institutional performance standards. Their compliance is evaluated by the State Council of Higher Education for Virginia (SCHEV), and they are still audited by the state.

Procurement officials from Virginia Tech and George Mason University report significant gains from these reforms, including monetary and nonmonetary benefits. The streamlined procurement process serves campus needs in a timely way and has enabled the campuses to cope with growth without needing additional staff. Barriers to cooperative purchasing

have been removed, giving them strategic advantages. Also, when the state changes its laws related to the Virginia Public Procurement Act, it no longer affects the universities' procurement process. The procurement officials add that senior higher education leaders are very happy with their new autonomy and flexibility, though there is still room for improvement. Legislators are happy as well; they have the support of their constituents and feel they have assisted higher education. In terms of the future, each institution's Memorandum of Understanding will come up for renewal in three years and a new management agreement will need to be negotiated. However, the expectation is that as long as institutions are meeting the required metrics, the state is unlikely to reverse the reforms in place without a very good reason.



# Appendix

## Public College and University Procurement: A Survey of the State Regulatory Environment, Institutional Procurement Practices and Efforts Toward Cost Containment

The purpose of this study is to investigate the impact of the state regulatory environment on procurement practices at the institutional level, with a focus on the impact of state regulations and institutional policies on cost containment.

### Section I. Inventory of Selected State Procurement Statutes, Regulations and Policies

This section pertains to the state procurement statutes, regulations, and policies in your state. *(Note: For the purpose of this survey, the term “state” does not refer to university systems).* **Please check all that apply.**

#### 1. What general authority does your state provide for procurement decisions?

- All purchases must be made through or with approval of a state central office or agency.
- Purchases over a minimum threshold must be made through or with approval of the state. (provide dollar amount): \$ \_\_\_\_\_
- Some contract and/or commodity types must be made through or with approval of the state. (please describe): \_\_\_\_\_
- The institution has complete and independent autonomy from the state regarding procurement.

#### 2. What general requirements does your state have for competitive bidding?

- The state has established a minimum threshold above which institutions must solicit formal competitive (sealed) bids. (provide dollar amount): \$ \_\_\_\_\_
- The state has a policy mandating the acceptance of lowest responsive bids in the awarding of contracts (e.g., nonmonetary factors cannot be considered).
- The state has a policy allowing institutions to award contracts that take into account nonmonetary considerations (e.g., product/ service quality) in addition to monetary considerations.
- The state has a policy allowing institutions to participate in state central purchasing group contracts.
- The state has a policy allowing institutions to participate in other voluntary (non-state) co-operative purchasing agreements.
- The state allows for supplier negotiations beyond the competitive bidding process?

#### 3. Does your state encourage or require consideration of or preference for:

- Diversity; small/minority-owned/women-owned businesses.
- Sustainability/“green” considerations.
- “Buy local” considerations.
- In-state preferences.
- Utilization of state correctional/prison industries
- Other considerations or preferences (please describe): \_\_\_\_\_

**4. Please describe other state statutes, regulations and policies that significantly impact your procurement practices and ability to contain costs.**

\_\_\_\_\_  
\_\_\_\_\_

**Section II. Inventory of Selected Institutional/System Policies and Practices**

This section pertains to the procurement policies and standard practices in place at your institution. **Please check all that apply.**

**5. What approval authority does your institution require for procurement decisions? If approval is required, please enter the amount below.**

- No approval is required above the level of chief procurement officer
- Approval is required by a Vice President for purchases over a minimum threshold (provide dollar amount): \$ \_\_\_\_\_
- Approval is required by the President for purchases over a minimum threshold (provide dollar amount): \$ \_\_\_\_\_

- Approval is required by the System Office for purchases over a minimum threshold (provide dollar amount): \$ \_\_\_\_\_
- Approval is required by a Governing Board for purchases over a minimum threshold (provide dollar amount): \$ \_\_\_\_\_

**6. What general requirements does your institution have for competitive bidding?**

- The institution or system has established a minimum threshold above which formal competitive (sealed) bids must be solicited (provide dollar amount): \$ \_\_\_\_\_
- The institution or system has a policy mandating the acceptance of lowest responsive bids in the awarding of contacts (i.e., nonmonetary factors cannot be considered).
- The institution or system has a policy that allows the awarding of contracts that take into account nonmonetary considerations (e.g., product/service quality) in addition to monetary considerations.

**7. What common procurement tools does your institution have in place?**

- The institution/system utilizes a procurement card program.
- The institution/system utilizes software that allows for the electronic routing of requisitions, purchase orders and other common procurement forms.
- The institution/system utilizes software that allows users to search supplier catalogs.
- The institution/system utilizes software that analyzes and categorizes spend by commodity.

- The institution/system utilizes software that supports electronically various aspects of the sourcing and bidding process.
- The institution/system utilizes software that supports various aspects of contract management.

**8. Does your institution utilize co-operative purchasing contracts?**

- Yes (provide the approximate annual dollar amount) \$ \_\_\_\_\_
- No

**9. Does your institution participate in co-operative purchasing agreements in the following areas?**

- Casualty insurance
- Computer/IT/communications equipment/hardware
- Computer/IT communications services
- Course/program sharing
- Financial services
- Fleet management (vehicles)
- Food supplies
- Food services
- Health insurance
- Janitorial/building maintenance supplies, equipment and services
- Legal services
- Liability insurance
- Library resources
- Life insurance
- Mailing goods and services
- Medical and surgical goods and services
- Health and mental goods and services
- Office supplies
- Printing and photocopier goods and services

- Property insurance
- Retirement benefits
- Road salt
- Scientific goods and services (research/laboratory)
- Security services
- Transportation services (including students and employees)
- Travel services
- Utilities
- Workers' compensation
- Other (please specify): \_\_\_\_\_

**10. Please feel free to describe other institutional or system policies that significantly impact your procurement practices and ability to contain costs or provide additional details regarding the items discussed above.**

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**Section III. Assessment of State Procurement Statutes, Regulations and Policies**

**11. In thinking about your institution's efforts to contain costs, are current state procurement statutes, regulations and policies:**

- Extremely detrimental to your efforts to contain costs?
- Somewhat detrimental to your efforts to contain costs?
- Neutral/have no impact on your efforts to contain costs?
- Somewhat helpful in your efforts to contain costs?

- Very helpful in your efforts to contain costs?

**12. Please describe any state procurement statutes, regulations, and policies that serve as barriers to your institution's efforts to contain costs.**

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**13. Please describe any positive developments in the regulatory environment in your state that facilitate your institution's efforts to contain costs. Please include any data on actual or anticipated dollar savings resulting from these changes.**

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**14. What opportunities for improvement do you see, or what changes would you recommend to reform state procurement regulations?**

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**Section IV. Assessment of Institutional/ System Procurement Policies**

**15. In your view, are current institutional procurement policies:**

- Extremely detrimental to your efforts to contain costs?
- Somewhat detrimental to your efforts to contain costs?
- Neutral/have no impact on your efforts to contain costs?
- Somewhat helpful in your efforts to contain costs?

- Very helpful in your efforts to contain costs?

**16. In your view, are current system procurement policies:**

- Extremely detrimental to your efforts to contain costs?
- Somewhat detrimental to your efforts to contain costs?
- Neutral/have no impact on your efforts to contain costs?
- Somewhat helpful in your efforts to contain costs?
- Very helpful in your efforts to contain costs?
- Not applicable

**17. Please describe any institutional or system procurement policies that serve as barriers to your institution's efforts to contain costs.**

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**18. Please describe any positive developments regarding institutional or system procurement policies that facilitate your institution's efforts to contain costs.**

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**19. What opportunities for improvement do you see, or what changes would you recommend to improve institutional or system procurement policies in the future?**

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**Section V. Institutional Characteristics**

20. What is the total annual amount of spend that is managed by the procurement department in a significant way? \$ \_\_\_\_\_

21. What is your institution's Total Annual Operating Expenses minus payroll and taxes? \$ \_\_\_\_\_

22. Total Full-Time Equivalent (FTE) Student Enrollment

- 0-999
- 1,000-1,999
- 2,000-2,999
- 3,000-4,999
- 5,000-11,999
- 12,000-19,999
- 20,000-29,999
- 30,000 +

23. Carnegie Classification (categories condensed)

- Doctoral/research university
- Master's college/university
- Baccalaureate college
- Special focus institution
- Tribal college
- System administration

24. State \_\_\_\_\_

25. Respondent's Job Title

- Chief Procurement Officer
- Director of Purchasing/Procurement
- Associate Director Purchasing/Procurement
- Assistant Director Purchasing/Procurement
- Other (please specify): \_\_\_\_\_

26. Name of institution (optional) \_\_\_\_\_

Name and phone \_\_\_\_\_

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**Note:** All institutional identification associated with this survey will be kept strictly confidential. If we have additional questions on your responses, will you agree to allow a member of the study's research staff to contact you in the event further clarification is needed to any of the above questions? If so, please provide your name and phone number. Institutional names will NOT be used for any marketing purposes.

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