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☞ Details: Legislative Audit Bureau Letter Report (August 2005): Materials Distribution Services and Surplus With A Purpose, University of Wisconsin-Madison

(FORM UPDATED: 08/11/2010)

# WISCONSIN STATE LEGISLATURE ... PUBLIC HEARING - COMMITTEE RECORDS

## 2005-06

(session year)

## Joint

(Assembly, Senate or Joint)

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\* Contents organized for archiving by: Stefanie Rose (LRB) (October 2012)

Letter Report

**Materials Distribution Services  
and Surplus With A Purpose**

*University of Wisconsin-Madison*

*August 2005*



**Legislative Audit Bureau**

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STATE OF WISCONSIN

Legislative Audit Bureau

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Janice Mueller  
State Auditor

August 2, 2005

Senator Carol A. Roessler and  
Representative Suzanne Jeskewitz, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

At your request, we are responding to legislative inquiries regarding profitability and salaries for two programs operated by the University of Wisconsin (UW)-Madison's Division of Business Services. The Materials Distribution Services (MDS) program allows UW campuses, state agencies, municipalities, and school districts to order a wide range of products from multiple vendors through a single point of purchase. The Surplus With A Purpose (SWAP) program collects surplus property from UW-Madison and other state-owned facilities in Madison and resells, recycles, or otherwise disposes of it.

MDS had estimated expenses of \$25.8 million in fiscal year (FY) 2004-05 and employed 26.3 full-time equivalent (FTE) staff, while SWAP had estimated expenses of \$1.3 million and employed 6.2 FTE staff. Both programs have expanded considerably since FY 2000-01. For example, MDS revenues increased 63.5 percent to reach \$26.0 million, primarily because the number of product vendors increased. SWAP revenues increased 35.6 percent, to \$1.4 million, because of increased activity. Both programs' expenses increased at rates similar to their revenues.

Despite relatively constant staffing levels, staffing costs for both programs have increased more than 17 percent since FY 2000-01. The increases occurred primarily because of changes in the types of positions funded. For example, five new information system positions allow both MDS and SWAP to conduct business on the Internet, while some less-costly storekeeper positions were eliminated. We reviewed March payroll data for each year from 2001 through 2005 and found that five permanent staff received salary increases of 10.0 percent or more in a single year, typically to reflect additional duties. However, most salary increases were within expected ranges.

We appreciate the courtesy and cooperation extended to us by UW-Madison staff.

Sincerely,

Janice Mueller  
State Auditor

JM/JZ/ss

## **MATERIALS DISTRIBUTION SERVICES AND SURPLUS WITH A PURPOSE**

The University of Wisconsin (UW)-Madison's Division of Business Services oversees the Materials Distribution Services (MDS) and the Surplus With A Purpose (SWAP) programs. MDS sells commonly used and specialty products to UW System, state agencies, local governments, and school districts. SWAP handles surplus property that belonged to UW-Madison and other state agencies. Both programs' administrative offices are located on the UW-Madison campus, but they operate primarily in an off-campus Madison warehouse that is leased by UW-Madison.

Concerns have been raised about the disposition of the income the two programs generate and salary increases for program staff out of this income. To address these questions, we:

- interviewed program officials;
- analyzed revenues and expenses for the programs; and
- reviewed changes in staffing levels and salaries.

### **Background**

In 1977, the Department of Administration's (DOA's) State Central Stores and UW Central Stores were merged into a single entity that has been named Materials Distribution Services since 1997. UW-Madison operates MDS under the authority provided in s. 20.285(1)(ha), Wis. Stats. Like other state purchasing functions, the MDS program must follow statutory requirements related to competitive bidding and adhere to DOA's procurement manual.

MDS orders and maintains stocks of high-volume products, including copier paper, and specialty items such as maps and other materials printed especially for UW-Madison. It maintains an on-line ordering system for these products and others that are available from one of its five contracted vendors:

- Fisher Scientific, which provides laboratory supplies;
- Dell Computer Corporation, Inc., which provides computer equipment;
- Corporate Express, Inc., which provides office products;
- Grainger Industrial Supply, Inc., which provides supplies used in building and grounds maintenance and operations; and
- Linde Gas, LLC, which provides gas cylinders used in laboratory work.

In the Madison area, vendors ship products to the MDS facility and MDS staff deliver them to customers. Outside of Madison, vendors ship products directly to customers by commercial carrier.

SWAP has operated under various names since 1990. It was established in an effort to comply with a 1989 state recycling law and to reduce the amount of waste generated by UW-Madison. Surplus materials from UW System campuses or offices, state agencies, municipalities, and school districts are currently sold at the off-campus warehouse facility in Madison or by auction.

In most instances, a portion of the revenue from sales is returned to the agencies that provided items for sale. Agencies that are eligible to sell materials through the program and nonprofit groups are given the first opportunity to purchase SWAP materials: they have access to Internet auctions one week before public access, and warehouse sales are open to them one day before items are made available to the general public. SWAP officials are in the process of eliminating the program's paper bidding process—sometimes used for high-value surplus items—in favor of Internet auctions.

### **Staffing Levels**

MDS and SWAP staffing levels are determined annually as part of the Division of Business Services' budget process and reviewed periodically throughout the year. As shown in Table 1, they have remained relatively constant over the past five years. The 32.5 full-time equivalent (FTE) positions that were filled by the two programs as of March 31, 2005, included 8.0 jointly funded positions. Among these are the UW-Madison director of purchasing, who also oversees both programs, and the MDS and SWAP general manager.

Table 1

**FTE Staff**  
As of March 31

Year	MDS	SWAP	Total
2001	24.4	7.4	31.8
2002	23.6	7.3	30.9
2003	23.2	6.3	29.5
2004	24.0	5.6	29.6
2005	26.3	6.2	32.5

MDS and SWAP also use limited-term employees (LTEs) and contract with individuals on a project basis. For example, as of March 31, 2005, MDS employed 3 LTEs, while SWAP—which typically experiences more fluctuations in its work cycle—employed 12 LTEs. In addition, two individuals worked for MDS or SWAP on a project basis, including one who worked for both programs and was partially funded by each.

## MDS Revenues and Expenses

Although their administration overlaps, UW-Madison accounts for each program's revenues and expenses separately. As shown in Table 2, MDS revenues increased from \$15.9 million in FY 2000-01 to an estimated \$26.0 million in FY 2004-05, or by 63.5 percent. The primary reason is the wider range of products now sold by MDS. For example, in FY 2001-02 it added a vendor for maintenance and operational supplies; in FY 2002-03, it added a vendor for computer equipment; and in FY 2003-04, it added a gas cylinder vendor. Individual agencies had previously ordered these products directly from vendors.

Table 2

### MDS Revenues

Source	FY 2000-01	FY 2004-05 <sup>1</sup>	Percentage Change
<b>Sales</b>			
Laboratory Supplies	\$ 7,752,200	\$10,832,700	39.7%
Computer Equipment	–	5,662,500	–
Office Products	4,627,500	4,921,300	6.3
Items Stocked by MDS	3,330,900	2,122,900	(36.3)
Maintenance and Operational Supplies	–	1,241,500	–
Gas Cylinders	–	907,400	–
<b>Subtotal</b>	<b>\$15,710,600</b>	<b>\$25,688,300</b>	<b>63.5</b>
Miscellaneous Revenue <sup>2</sup>	220,400	355,600	61.3
<b>Total</b>	<b>\$15,931,000</b>	<b>\$26,043,900</b>	<b>63.5</b>

<sup>1</sup> Estimated.

<sup>2</sup> Includes revenues received from storage and distribution fees, incentive payments received from vendors, and other miscellaneous revenues.

As shown in Table 3, MDS expenses mirrored the program's revenues, increasing from \$15.7 million in FY 2000-01 to an estimated \$25.8 million in FY 2004-05, or by 64.0 percent. The 89.1 percent increase in the cost of products sold from vendors resulted primarily from the

addition of new vendor contracts. Salary and fringe benefit costs increased because of changes in the types of positions funded, including three information system positions that allow MDS to conduct more of its business on the Internet.

Table 3  
MDS Expenses

Type	FY 2000-01	FY 2004-05 <sup>1</sup>	Percentage Change
<b>Cost of Products Sold</b>			
From Vendors	\$11,874,100	\$22,452,300	89.1%
From MDS Inventories	1,939,100	1,256,200	(35.2)
<b>Subtotal</b>	<b>\$13,813,200</b>	<b>\$23,708,500</b>	<b>71.6</b>
<b>Salaries and Fringe Benefits</b>			
Salaries	\$ 894,000	\$ 986,100	10.3
Fringe Benefits	347,700	475,700	36.8
Salaries for LTE and Project Staff	38,800	37,500	(3.4)
<b>Subtotal</b>	<b>\$ 1,280,500</b>	<b>\$ 1,499,300</b>	<b>17.1</b>
<b>Other</b>			
Lease of Space	\$ 301,800	\$ 300,200	(0.5)
Equipment, Services, and Supplies	164,000	121,400	(26.0)
Depreciation Expenses	82,300	89,300	8.5
Maintenance and Repair	51,600	38,000	(26.4)
Utilities	30,900	34,600	12.0
<b>Subtotal</b>	<b>\$ 630,600</b>	<b>\$ 583,500</b>	<b>(7.5)</b>
<b>Total</b>	<b>\$15,724,300</b>	<b>\$25,791,300</b>	<b>64.0</b>

<sup>1</sup> Estimated.

As shown in Table 4, MDS generated revenues of \$100.9 million from FY 2000-01 through FY 2004-05. After accounting for expenses of \$100.4 million, its cumulative net income, or profit, was \$479,100. This entire amount was retained by MDS to offset losses in prior years. MDS is a self-financing operation intended to generate revenues sufficient to cover the cost of its operations. In most years it did so, including estimated net income of \$252,600 for FY 2004-05.

Table 4  
MDS Net Income (Loss)

Year	Revenues	Expenses	Net Income (Loss)
FY 2000-01	\$ 15,931,000	\$ 15,724,300	\$206,700
FY 2001-02	17,496,100	17,483,100	13,000
FY 2002-03	18,462,000	18,488,300	(26,300)
FY 2003-04	22,950,600	22,917,500	33,100
FY 2004-05 <sup>1</sup>	26,043,900	25,791,300	252,600
<b>Total</b>	<b>\$100,883,600</b>	<b>\$100,404,500</b>	<b>\$479,100</b>

<sup>1</sup> Estimated.

### SWAP Revenues and Expenses

As shown in Table 5, SWAP revenues increased from \$1.0 million in FY 2000-01 to an estimated \$1.4 million in FY 2004-05. Program officials attributed this 35.6 percent increase to increased awareness of the program based on its expanded use of the Internet and more sales at the program's Madison location.

Table 5  
SWAP Revenues

Source	FY 2000-01	FY 2004-05 <sup>1</sup>	Percentage Change
<b>Sales</b>			
Warehouse Store	\$ 746,000	\$ 968,900	29.9%
Internet Auctions	-	374,800	-
Paper Bids	247,600	-	-
<b>Subtotal</b>	<b>\$ 993,600</b>	<b>\$1,343,700</b>	<b>35.2</b>
Miscellaneous Revenue <sup>2</sup>	34,400	50,400	46.5
<b>Total</b>	<b>\$1,028,000</b>	<b>\$1,394,100</b>	<b>35.6</b>

<sup>1</sup> Estimated.

<sup>2</sup> Includes fees charged for delivery and pick-up of items for sale, and recycling contract revenue.



As shown in Table 6, SWAP expenses increased 23.7 percent, from \$1.1 million in FY 2000-01 to an estimated \$1.3 million in FY 2004-05. As the SWAP program has grown, it has incurred greater expenses in two cost categories: salaries and fringe benefits, which reflect two new information system positions that allow SWAP to conduct business on the Internet and the increased time warehouse staff spent working on the SWAP program, and leasing costs, which reflect increased warehouse space SWAP has used as the program has grown.

Table 6  
SWAP Expenses

Type	FY 2000-01	FY 2004-05 <sup>1</sup>	Percentage Change
<b>Salaries and Fringe Benefits</b>			
Salaries	\$ 276,700	\$ 274,000	(1.0%)
Fringe Benefits	102,800	148,800	44.7
Salaries for LTE and Project Staff	39,100	74,600	90.8
<b>Subtotal</b>	<b>\$ 418,600</b>	<b>\$ 497,400</b>	<b>18.8</b>
<b>Sales Revenue Returned to Agencies</b>	<b>\$ 356,600</b>	<b>\$ 477,800</b>	<b>34.0</b>
<b>Other</b>			
Pickup of Sale Items	\$ 167,200	\$ 101,000	(39.6)
Lease of Space	70,500	133,200	88.9
Supplies	55,100	84,800	53.9
Depreciation Expenses	9,400	17,800	89.4
Maintenance and Repair	5,800	13,600	134.5
Credit Card Fees <sup>2</sup>	-	12,900	-
Utilities	5,400	7,900	46.3
<b>Subtotal</b>	<b>\$ 313,400</b>	<b>\$ 371,200</b>	<b>18.4</b>
<b>Total</b>	<b>\$1,088,600</b>	<b>\$1,346,400</b>	<b>23.7</b>

<sup>1</sup> Estimated.

<sup>2</sup> SWAP did not accept credit card payments until FY 2001-02.

Like MDS, SWAP is expected to generate revenues sufficient to fund the cost of its operations. As shown in Table 7, its total revenues were \$6.2 million from FY 2000-01 through FY 2004-05. Net income of \$47,700 is estimated for FY 2004-05, and SWAP reported cumulative net income of \$63,700 over the period shown.

Table 7

**SWAP Net Income (Loss)**

Year	Revenues	Expenses	Net Income (Loss)
FY 2000-01	\$1,028,000	\$1,088,600	(\$60,600)
FY 2001-02	1,529,400	1,516,500	12,900
FY 2002-03	1,173,700	1,116,300	57,400
FY 2003-04	1,118,300	1,112,000	6,300
FY 2004-05 <sup>1</sup>	1,394,100	1,346,400	47,700
<b>Total</b>	<b>\$6,243,500</b>	<b>\$6,179,800</b>	<b>\$63,700</b>

<sup>1</sup> Estimated.

**Salary Increases**

Because concerns have been raised that some MDS and SWAP staff may have received large salary increases in recent years, we analyzed payroll data for each March from 2001 through 2005. While most salary increases were within expected ranges, five permanent staff received increases of 10.0 percent or more in a single year, typically to reflect new duties.

Of the 32.5 FTE staff employed by MDS and SWAP as of March 2005:

- 22.0 FTE staff were classified in state civil service and represented by the Wisconsin State Employees Union;
- 5.3 FTE staff were classified and represented by the Wisconsin Professional Employees Council;
- 4.7 FTE staff were classified but were not represented; and
- 0.5 FTE position, the director of purchasing, was UW-Madison academic staff.

UW-Madison has somewhat limited discretion in awarding salary increases to most MDS and SWAP staff. The salaries of the 22.0 FTE staff represented by the Wisconsin State Employees Union are based on seniority and are determined solely by a collective bargaining agreement between UW-Madison and the union. However, if an individual's job duties change, UW-Madison can request that the position be reclassified to reflect the additional responsibilities. For example, we noted that:

- an MDS program assistant was reclassified and received a 14.7 percent increase in 2003 and now is paid \$33,012; and

- an MDS financial specialist was reclassified and received a 13.8 percent increase in 2003 and now is paid \$28,631.

The salaries of the 5.3 FTE staff represented by the Wisconsin Professional Employees Council also are based generally on seniority and are determined by a collective bargaining agreement between UW-Madison and the union. However, UW-Madison has the authority to award discretionary compensation adjustments to individuals in these positions. For example, the SWAP sales manager received an hourly wage increase of \$3.91, or 20.8 percent, in 2003 and now is paid \$47,907 annually. Of the hourly increase, \$1.57 was negotiated in the union's collective bargaining agreement, while the remaining \$2.34 was a discretionary compensation adjustment awarded by UW-Madison to reflect the expansion of the SWAP program and new duties related to managing technical aspects of SWAP Internet auctions.

Salary increases for the 4.7 FTE staff that are classified but nonrepresented typically are determined under a pay plan approved by the Legislature's Joint Committee on Employment Relations. However, UW-Madison also can award discretionary compensation adjustments to individuals in these positions. For example, the general manager of both programs received an hourly wage increase of \$2.49, or 10.1 percent, in 2001 and now is paid \$62,221 annually. Of the hourly increase, \$0.27 was approved under the pay plan, while the remaining \$2.22 was a discretionary compensation adjustment awarded by UW-Madison to reflect additional technical skills he acquired related to Internet-based MDS operations.

UW-Madison has considerable discretion in determining the salary of the director of purchasing, who holds a university academic staff position. In addition to general oversight responsibility for both programs, this position is responsible for traditional purchasing processes at UW-Madison, such as reviewing requests for proposals and bids. According to UW-Madison officials, this position's salary is based primarily on wage data for large research universities that is published by the College and University Professional Association for Human Resources.

UW-Madison officials indicated that the director was hired in 2000 at a salary below the median for similar positions at other universities. After a one-year evaluation, the director received a salary increase of 13.5 percent in 2001 to reflect his additional experience and the added complexity of MDS and SWAP operations. He now is paid \$100,603 annually.

■ ■ ■ ■





WISCONSIN STATE LEGISLATURE

*Joint Audit Committee*

Committee Co-Chairs:  
State Senator Carol Roessler  
State Representative Suzanne Jeskewitz

November 1, 2004

Representative Eugene Hahn  
15 West, State Capitol  
Madison, Wisconsin 53702

Dear Representative Hahn:

Thank you for your letter, dated September 9, 2004, requesting that we direct the Legislative Audit Bureau to review the Surplus With A Purpose (SWAP) and Materials Distribution Service (MDS) programs operated by the University of Wisconsin-Madison.

After discussing the request with the State Auditor, we have directed the Legislative Audit Bureau to conduct a limited-scope review of these programs. At our request, Bureau staff will contact university staff who administer these programs, review program operations, analyze program expenditures, and prepare a brief report on their findings.

If you have any additional questions or concerns, please contact our offices.

Sincerely,

Senator Carol A. Roessler, Co-chair  
Joint Legislative Audit Committee

Representative Suzanne Jeskewitz, Co-chair  
Joint Legislative Audit Committee

Enclosure

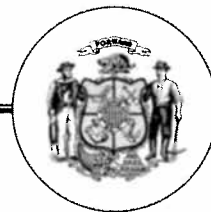
cc: John Wiley, Chancellor  
University of Wisconsin-Madison

Deborah Durcan, Vice President of Finance  
University of Wisconsin System

Janice Mueller  
State Auditor

# EUGENE HAHN

State Representative • 47th Assembly District



September 9, 2004

Co-Chair:  
Joint Survey Committee  
on Tax Exemptions

Vice-Chair:  
Assembly Committee  
on Agriculture

Senator Carol Roessler  
8 South – State Capitol

Representative Sue Jeskewitz  
314 North – State Capitol

Dear Senator Roessler & Representative Jeskewitz

I am requesting an audit of two University programs housed within the University of Wisconsin Procurement Department. It has been brought to my attention that there may be some improprieties within the SWAP (Surplus with a Purpose) and MDS (Material Distribution Service). I have been contacted by an employee of one these programs who is also a constituent. According to the employee SWAP generates \$1.2 million and MDS generates \$26 million in revenue annually. I am concerned that if these programs are generating this amount of income that it be returned to GPR and not used for University selected purposes while the University continues to demand large amounts of funding through the State Budget Process. The employee indicated that the money is possibly being directed toward salary increases.

The Department of Administration had apparently hired a consultant to conduct an EASI study. This study was very much in the preliminary stages when it was abruptly ended.

I appreciate your consideration of my request. Please let me know if you have further questions.

Sincerely,

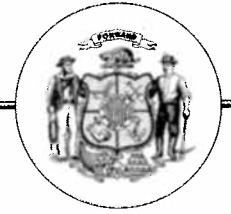
A handwritten signature in cursive that reads "Eugene Hahn (wsm)".

Rep. Eugene Hahn  
State Representative  
47<sup>th</sup> Assembly District

EHH:wsm

# EUGENE HAHN

State Representative • 47th Assembly District



Chair:  
Assembly Committee  
on Rural Affairs

Sept. 9, 2004

Sue,

Hope you have not forgot the concern of my  
constituent on the sales of "Surplus Property".

The fellow knows some one will be labeled a  
"mole" but he sincerely believes there is wrong activity  
taking place and the U. W. is intercepting funds  
in the process.

I have known this fellow's Wife and Mother in-law  
for 45 or 50 years and they are "salt of the earth"  
type people.

Please give the request very serious consideration.

Sincerely,  
Eugene Hahn