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☞ Details: Public Hearing: Proposed Audit: Accountability, Consolidation, and Efficiency (ACE) Initiative

(FORM UPDATED: 08/11/2010)

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

### 2007-08

(session year)

### Joint

(Assembly, Senate or Joint)

### Committee on Audit...

## COMMITTEE NOTICES ...

- Committee Reports ... **CR**
- Executive Sessions ... **ES**
- Public Hearings ... **PH**

## INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt** (w/Record of Comm. Proceedings)
- Clearinghouse Rules ... **CRule** (w/Record of Comm. Proceedings)
- Hearing Records ... bills and resolutions (w/Record of Comm. Proceedings)
  - (**ab** = Assembly Bill)                      (**ar** = Assembly Resolution)                      (**ajr** = Assembly Joint Resolution)
  - (**sb** = Senate Bill)                              (**sr** = Senate Resolution)                              (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**

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

## Record of Committee Proceedings

### Joint Legislative Audit Committee

**Proposed Audit: Accountability, Consolidation, and Efficiency (ACE) Initiative.**

April 10, 2008

#### **PUBLIC HEARING HELD**

Present: (10) Senators Sullivan, Lassa, Miller, A. Lasee and Cowles; Representatives Jeskewitz, Rhoades, Kerkman, Cullen and Parisi.

Absent: (0) None.

#### Appearances For

- Bill Smith — National Federation of Independent Business

#### Appearances Against

- None.

#### Appearances for Information Only

- Janice Mueller, Madison — State Auditor, Legislative Audit Bureau
- Dean Swenson, Madison — Legislative Audit Bureau
- Dan Schooff, Madison — Deputy Secretary, Office of the Secretary, Department of Administration

#### Registrations For

- None.

#### Registrations Against

- None.

#### Registrations for Information Only

- None.

April 10, 2008

#### **EXECUTIVE SESSION HELD**

Present: (10) Senators Sullivan, Lassa, Miller, A. Lasee and Cowles; Representatives Jeskewitz, Rhoades, Kerkman, Cullen and Parisi.

Absent: (0) None.

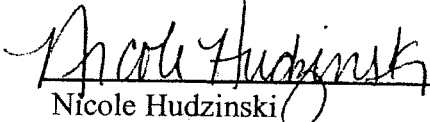
Moved by Senator A. Lasee, seconded by Representative Kerkman that **Proposed Audit: Accountability, Consolidation, and**

**Efficiency (ACE) Initiative** be approved according to the scope statement dated December 12, 2007, prepared by the Legislative Audit Bureau, with modifications by the committee.

Ayes: (9) Senators Sullivan, Lassa, A. Lasee and Cowles; Representatives Jeskewitz, Rhoades, Kerkman, Cullen and Parisi.

Noes: (1) Senator Miller.

ADOPTION RECOMMENDED, Ayes 9, Noes 1

  
\_\_\_\_\_  
Nicole Hudzinski  
Committee Clerk



**ROBERT L. COWLES**

MEMBER:  
Joint Committee on Audit  
Commerce, Utilities and Rail

May 15, 2007

Sen. Jim Sullivan  
Rep. Suzanne Jeskewitz  
Co-Chairpersons, Joint Legislative Audit Committee  
INTER-DEPARTMENTAL MAIL

Dear Co-Chairpersons Sullivan and Jeskewitz

I am writing today to request a comprehensive audit of the Accountability, Consolidation and Efficiency (ACE) initiative. As you may recall, the Governor created the ACE initiative in 2005 with the promise that it would save \$200 million over the next four years. The savings were to be realized by creating efficiencies in the procurement of products such as office supplies, IT services and printers. Financial benefits were also to be realized from the sale of surplus state property.

The Administration recently cancelled a fifth ACE-related contract, one dealing with a real estate firm hired to sell state property. Other ACE-related contracts cancelled or rebid in the last year have included contracts for a state e-mail reorganization project, a computer server consolidation project and a contract to handle state employee travel arrangements.

I am concerned that the ACE initiative is not creating the efficiencies and cost savings that the Governor promised when he introduced this proposal, and I also question whether the Administration is holding their contractors accountable for their mistakes. For these reasons, I believe that the best course of action would be for an audit of the ACE initiative by the non-partisan Legislative Audit Bureau.

Thank you for your attention to this matter, and please don't hesitate to contact me if you would like to discuss this issue further.

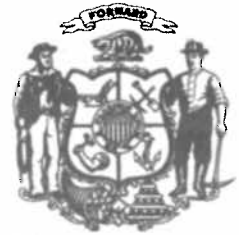
Sincerely,

ROBERT L. COWLES

Cc: Jan Mueller, Legislative Audit Bureau



# State Representative Spencer Black



State Capitol  
P.O. Box 8952  
Madison, WI 53708  
(608) 266-7521

June 13, 2007

Sen. Jim Sullivan  
✓ Rep. Suzanne Jeskewitz  
Co-Chairpersons, Joint Legislative Audit Committee  
INTER-DEPARTMENTAL MAIL

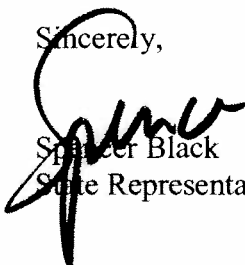
Dear Co-Chairpersons Sullivan and Jeskewitz,

Recently, Senator Cowles wrote to you to request a comprehensive audit of the Accountability, Consolidation and Efficiency (ACE) initiative. I am writing to you in support of Senator Cowles' request.

I am enclosing testimony from a constituent of mine, Betty MacEwen, about the impact of ACE on small business. Her testimony was presented to the Assembly Committee on Small Business. Also enclosed is testimony of two other IT vendors impacted by ACE. Their testimony both supports the need for an audit and points to one specific area that a comprehensive audit of ACE should address.

Thank you for your consideration of this request.

Sincerely,

  
Spencer Black  
State Representative



May 22, 2007

Good morning, thank you for the opportunity to provide information to you on the affects of the ACE Initiative on my small business. My name is Betty MacEwen and I am the sole proprietor of MacEwen Consulting, a fledgling IT services small business. I am a life-long Wisconsin resident, product of the University of Wisconsin system, and I live in Madison. I have worked in IT in Wisconsin for the past 15 years. I am currently engaged on an RFS contract with the Department of Workforce Development. I have worked at DWD as a contractor for two years. I started my own small business less than one year ago.

I would like to speak to you today about how certain aspects of the ACE Initiative are unfair to small businesses providing IT services to the State. I believe there are some unintended consequences coming out of the recent changes instituted by DOA.

The agenda of my testimony today is:

1. Overview of Definition and Terms, MacEwen Handout #1
2. Brief Historical Perspective, MacEwen Handout #2
3. My personal testimony

Please see the handout Overview of Definition and Terms, labeled MacEwen Handout #1, which is provided to you for your reference. Please feel free to ask me questions at any time.

Next, let's review the Brief Historical Perspective handout. This is labeled MacEwen Handout #2.

Now I would like to review my main concerns regarding the restrictions that have been selectively placed on only certain IT service vendors among whom I am included.

As a result of the Rate Card, Prime Vendor List, and the VMS, many undue impediments have been placed on my small business. I believe these impediments are in direct violation of Wisconsin State Statute 16.75(4)(a). A copy of this Statute is provided to you in Handout #1, Page 2.

#### **Additional fees**

The results of the limited vendor list and the Comsys fee have essentially imposed a 5.8% tax on my revenue.

Fee to prime vendor to handle my invoices, \$3 per hour

Fee to Comsys of 2.5% of the billing rate, \$2.13 per hour

This is approximately \$9,000 per year that I must forfeit in order to provide IT services to the State. There is no value added for my business for this tax. And according to my information, these new changes have increased the administrative burden within DWD in dealing with their



RFS positions. The only beneficiaries I can see in these changes are Comsys in generating more revenue and DOA in consolidating more power.

One would think the prime vendors would be beneficiaries of these changes due to their ability to collect fees because of their exclusive presence on the vendor list. However, I believe most prime vendors would gladly see the end of these new policies as they impose incredible administrative burdens on them, as well.

### **Bad for taxpayers**

By denying sole proprietors and many small businesses from directly competing for State business, DOA has shut the door on the cheapest and arguably best IT resources that the State has access to in the local market. Sole proprietors tend to be energetic, resourceful, professional, experienced, loyal, and cheap. By eliminating the typically 35%+ margins enjoyed by most IT vendors who employ IT consultants, the State can have access to top-quality contractor staff at extremely competitive rates. It is not good for taxpayers to reduce competition, increase layers of bureaucracy, and increase costs of doing business with the State.

### **Access to information**

Notification of new RFS opportunities is now filtered through Comsys and then through the prime vendor. The system is cumbersome and allows for communication breakdown if not outright corruption. It is conceivable I would not hear of all RFS opportunities and would have no way to know this happened. I am very concerned about this exclusive access to information about RFS positions.

**Antagonistic environment** As a sole proprietor, I am now subject to power plays by many parties in this system. What happens if I become a direct competitor to my prime vendor for an RFS? Or a direct competitor to Comsys for an RFS? Or too much of a pain in the neck to DOA because of my concerns with this new business environment? What is to stop personal power plays from occurring if I happen to offend someone in one of these organizations that now hold so much power over me?

I have already had two less than inspiring DOA experiences because of my vocal stance on the issue of the VMS. I wrote a letter to my Representative, Spencer Black, in early March of this year. Rep. Black forwarded my concerns to Michael Morgan, Secretary of DOA. As a consequence, the prime vendor through whom I invoice was called in for a meeting with DOA purchasing representatives. The DOA representatives were hostile in tone and essentially the prime vendor was told to keep their sub-contractors under control and bring them into line with the policies of DOA. The prime vendor was also told that sub-contractors have no business contacting their State Representatives on these matters. This was very disturbing to me as a sole proprietor and a citizen. It also was very disturbing to the prime vendor involved. I can tell you that I felt and still feel great concern for my livelihood due to this response from DOA. And as a citizen, I feel incredible outrage that bureaucrats in my government would deign to reprimand me or my business associates for exercising my rights as a citizen.

The second experience also stemmed from my March 9, 2007, letter to Spencer Black. Rep. Black received a response on April 18, 2007, from Michael Morgan. This response to my letter to Spencer Black was not at all reassuring that DOA cares about communication with the vendor community or cares about forming mutually beneficial relationships with small businesses. The DOA response was issued six weeks after Rep. Black's initial inquiry and was only made after Black's office repeatedly asked for a response. The response did not address any of my concerns. Instead, the response seemed to imply that I was consciously engaged in blatantly ripping off the State as it mentioned contractors receiving \$200 per hour and \$40 million in IT expenditures. In reality, my billing rate is \$85 per hour and has been exactly the same for the two years I have worked at DWD. And we can easily measure my revenue in the tens of thousands rather than the tens of millions. I felt the four page response was defensive and heavy-handed. Much fault and blame was placed squarely on the shoulders of the businesses who are trying to provide services to the State in spite of the impediments. Nothing in the DOA response makes me comfortable interacting with DOA even if they would allow me to do so. This certainly is not an encouraging business climate for IT small businesses in Wisconsin. It greatly saddens me as a citizen of Wisconsin to see such an egregious example of bad government right here in our own state.

I know that small business has been hurt by these recent changes. There are other small business owners who do not have the luxury of risking their livelihood to come before you today to testify. This climate of uncertainty and frustration is not the proper state of affairs between small business and our State government.

Thank you for considering my testimony and thank you for taking an interest in the small business economy of Wisconsin.

May 22, 2007

## Overview and Definition of Terminology

This is a brief overview of terminology relating to the ACE Initiative and its effect on Information Technology small businesses.

### IT - Information Technology

#### RFP - Request for Proposal

- More than 3 years in duration
- Or, more than \$1 million per year in revenue to a single vendor
- Mostly outsourced projects
- Small businesses typically cannot play in this space

An RFP is the mechanism by which the State requests terms and conditions to be submitted by businesses that can provide IT services to the State for contracts greater than 3 years in duration or greater than one million dollars per year in revenue to a single IT supplier. An RFP based project is typically an outsourced project for which day to day operations are overseen and directed by the vendor. Typically, small businesses cannot respond to an RFP because they are too small.

#### RFS - Request for Services

- Less than 3 years in duration
- Less than \$1 million per year in revenue to a single vendor
- Staff augmentation for internally managed projects or programs
- Both small businesses and large businesses play in this space

An RFS is the mechanism by which the State publishes the requirements and rate(s) for a particular position or set of positions to augment staff for a specific program or project. The duration of the engagement must be less than 3 years and less than one million dollars per year in revenue to a single vendor.

#### Rate Card

Instituted in Summer of 2005, the Rate Card categorizes all RFS IT vendor services into seven rate categories. It establishes maximum rates for each category. RFP vendor services are not subject to the Rate Card.

#### Prime Vendor List

A list of 69 companies who are allowed to participate in the RFS process. In October 2005, this list was reduced to 69 companies from over 300 companies.

**VMS - Vendor Management System**

A system that handles all aspects of managing IT vendors. This includes invoices, payments, communication, and in the case of the State, the RFS process. Rollout began in Fall of 2006 and is not yet complete.

**COMSYS**

COMSYS IT Partners, Inc., a Texas-based company with no offices in Wisconsin. The vendor who was awarded the contract to implement and administer the VMS for the State. This contract was awarded via the RFP process.

**INSITE**

Time entry and reporting software used by COMSYS. Vendors and State staff must use Insite to interact with Comsys.

**Prime Vendor**

A vendor on the Prime Vendor List is referred to as a Prime Vendor or simply, a Prime.

**Sub or Sub-contractor**

A business that provides services to the State but is not on the Prime Vendor List and therefore must sub-contract to the Prime Vendor in order to provide services to the State.

**Wisconsin State Statute 16.75(4)(a)**

- 16.75(4)(a) (a) The department shall encourage the participation of small businesses and veteran-owned businesses in the statewide purchasing program by ensuring that there are no undue impediments to such participation and by actively encouraging small businesses and veteran-owned businesses to play an active role in the solicitation of purchasing business by agencies. To that end the department shall:
- 16.75(4)(a)1. 1. Maintain comprehensive lists of small businesses and of veteran-owned businesses located in this state which have indicated a willingness to provide materials, supplies, equipment or contractual services to the state.
  - 16.75(4)(a)2. 2. Develop ways of simplifying specifications and terms so that they will not impose unnecessary administrative burdens on small businesses and veteran-owned businesses located in this state which submit bids or proposals to the state.
  - 16.75(4)(a)3. 3. Assist small businesses and veteran-owned businesses located in this state in complying with the state's competitive bidding and competitive proposal procedures.
  - 16.75(4)(a)4. 4. Notify businesses on the lists maintained under subd. 1. of agency purchasing requests for which the businesses may wish to submit a bid or proposal.

May 22, 2007

### **Brief Historical Perspective**

This is a brief overview of the history relating to the ACE Initiative and its effect on Information Technology small businesses.

### **Summer 2005 - Rate Card**

Rate Card published and instituted limiting rates for IT vendor services contracted through the Request for Services (RFS) process.

### **October 2005 - Restricted Vendor List**

Prime Vendor List limited to 69 companies from over 300 companies on the list. **Sole proprietors eliminated from the list.**

A new rule was imposed on the IT vendor economic sector. To be included on the Prime Vendor List an IT vendor must be able to provide talent in all seven categories of the Rate Card. This rule adversely affected sole proprietors and technology companies that specialized in a certain area of technology. This eliminated the absolute cheapest IT vendor labor, sole proprietors, and perhaps the most specialized and therefore efficient IT vendor labor from having a direct business relationship with the State. This move reduced the number of businesses that could directly compete for business with the State and has hurt small businesses in the IT sector.

### **Winter 2006 - 2.5% Fee**

Vendor Management System (VMS) rollout begins. A fee of 2.5% is imposed on each RFS contract as agencies are rolled on to the system. The rollout is not complete, yet, with 93% of the RFS positions now under the VMS.

**Note:** Request for Proposal (RFP) contracts are not touched by any of these actions. This provides a competitive advantage for large businesses.

**RATE CARD**

Category	Title	Level	Final Rate \$/Hour
1. Applications	Programmer-Analyst	Programmer-Analyst 1	\$42.00
		Programmer-Analyst 2	\$54.00
		Programmer-Analyst 3	\$68.00
	Programmer	Programmer 1	\$40.00
		Programmer 2	\$50.00
		Programmer 3	\$62.00
	Software Engineer	Software Engineer 1	\$45.00
		Software Engineer 2	\$58.00
		Software Engineer 3	\$70.00
	System Analyst	System Analyst 1	\$45.00
		System Analyst 2	\$60.00
		System Analyst 3	\$70.00
2. Systems	Systems Engineer	Systems Engineer	\$64.00
	Systems Architect	Systems Architect	\$74.00
	Systems Administrator	Systems Administrator 1	\$50.00
		Systems Administrator 2	\$70.00
3. Data Management	Database Administrator	Database Administrator 1	\$52.00
		Database Administrator 2	\$65.00
		Database Administrator 3	\$75.00
	Database Architect	Database Architect 1	\$54.00
		Database Architect 2	\$70.00
		Database Architect 3	\$85.00
4. Technical Specialist	Technical Writer	Technical Writer 1	\$40.00
		Technical Writer 2	\$50.00
	Testing Technician	Testing Technician 1	\$40.00
		Testing Technician 2	\$56.00
	Technician	Technician 1	\$35.00
		Technician 2	\$45.00
5. Customer Technical Support	Desktop Support	Desktop Support 1	\$28.00
		Desktop Support 2	\$35.00
		Desktop Support 3	\$47.00
	Help Desk	Help Desk 1	\$28.00
		Help Desk 2	\$35.00
		Help Desk 3	\$45.00
6. Project Management	Project Manager	Project Manager 1	\$70.00
		Project Manager 2	\$85.00
	Business Analyst / Consultant	Business Analyst/Consultant 1	\$46.00
		Business Analyst/Consultant 2	\$57.00
		Business Analyst/Consultant 3	\$68.00
	Quality Assurance Analyst	Quality Assurance Analyst 1	\$40.00
		Quality Assurance Analyst 2	\$50.00
Quality Assurance Analyst 3		\$60.00	
7. Networking	Network Engineer	Network Engineer	\$75.00
	Network Analyst	Network Analyst 1	\$43.00
		Network Analyst 2	\$52.00
		Network Analyst 3	\$61.00
	Network Technician	Network Technician 1	\$35.00
		Network Technician 2	\$50.00
		Network Technician 3	\$58.00
	Security Analyst	Security Analyst 1	\$50.00
		Security Analyst 2	\$60.00
		Security Analyst 3	\$80.00

May 22, 2007

Hearing on the ACE Initiative – Small Business Committee

Good Morning. My name is Pat Arndorfer. I live in Sun Prairie, Wisconsin and I am the sole proprietor of Essential Solutions LLC, an IT consulting company. I have been working in the Information Technology field since 1984 and I have been in business for myself since 1999. My business has been exclusively with the State of Wisconsin since 1999. I am currently providing staff augmentation services to the Department of Workforce Development. Thank you for giving me an opportunity to speak before you this morning.

I would like to speak to the issue of fairness in terms of how the State does business with large companies versus small businesses. There are 2 sets of rules in place, one for the Request for Proposal (RFP) process and one for the Request for Services (RFS) process. Recent changes dictated by DOA have exacerbated the unfairness of this system by imposing new rules only on the RFS process.

The RFS process is the primary vehicle by which independent contractors and small businesses do business with the State. The rules for contracts via the RFS process are as follows:

1. The contractor hourly rate is limited to the maximum rate published on the Rate Card.
2. No Vendors can do business with the State directly. Everyone must go through the VMS. This is an additional layer that did not exist previously.
3. There is an exclusive limited list of Prime Vendors who can respond to Requests for Services. Anyone not on the list, must subcontract to a Prime Vendor and respond via the Prime. This is a second additional layer for Subcontractors that did not exist previously.
4. The vendor must forfeit 2.5% of their income to the VMS, and for subcontractors, an additional fee is forfeited to the Prime Vendor.
5. COMSYS, the VMS vendor, controls information passing between the State and Prime Vendors. They control who on the Vendor List receives the Requests for Services and which candidates' resumes are offered to State management. It is not clear if there are any checks and balances in place to ensure all parties receive all appropriate information.

In contrast to the RFS, the RFP process, by virtue of its requirements, is typically reserved for large companies. The rules for contracts via the RFP process are as follows:

1. Hourly rates are dictated by competition among vendors and are NOT limited to an artificially imposed maximum rate.
2. The vendor deals directly with the State. There are no middlemen.
3. 100% of the billable rate is paid to the vendor.

So you can see that the RFS vendors have additional layers of bureaucracy and fees imposed upon them that are virtually unknown to RFP vendors. It's clear to me that discrimination against small businesses is built into this new system.

Before I went into business for myself, I worked for a consulting firm that subcontracted my services to Deloitte Consulting. I'd like to share some information about the monetary terms of the contract with Deloitte to illustrate the extreme inequity in hourly rates paid for comparable work under an RFP versus an RFS.

I am writing to inform you of a situation that has been evolving for some time. It revolves around the Vendor Management System (VMS) used by DOA to manage IT resources. Let me start by giving you some background. Last spring the company I worked for dissolved and I made the choice to start my own business, Sawyer Consulting LLC. I have done business with the state for many years and wanted to continue to do so. At that time I had been on a contract with DWD for 2 years and wanted to continue the relationship. The first problem I faced was the fact that my business was not on the Prime Vendor List. Two years ago DOA created this list to reduce the number of IT vendors that could do business with the State. Since I could not do business directly with DWD I had to become a subcontractor with a business that was on the list even though I already had a position. To manage my contract and billing they charge me a fee of \$3 per billed hour, some businesses charge up to \$5 per hour for the same service.

This spring DWD has been forced into using the VMS system which is controlled by Comsys out of Houston, TX. Comsys now takes an additional 2.5% of my bill rate for their service fee. Here is where the problems start. Firstly Comsys provides consulting services to the State of Wisconsin in direct competition to companies such as mine. They have an unfair advantage over me in a couple ways, first because they do not have to subcontract, second because they do not pay the 2.5% fee. So they can offer lower bill rates than their competitors.

I currently have no employees, but it also concerns me that Comsys has a clause in their contract with DOA that says they can hire anyone without penalty. This contract also only involves IT resources, not any other business types that provide services to the state. I'm not sure why my services are treated different than those of another type of vendor. Also the large consulting companies have ways to bypass the fees and the rate card limits. The only ones being punished here are the small Wisconsin businesses.

As a taxpayer I'm not sure how adding this extra layer of billing is helping anything. It seems to me that hiring resources has become burdensome for IT projects. The cost of the system to the state seems incredible in relation to the service it provides which is consolidated IT billing and IT resource management. Why not just hire a Comsys contractor because it is easier? From my standpoint they've wedged themselves into a very sweet deal with the State. They can add consultants faster and easier into state contracts, in addition to being able to be cheaper. I don't believe the state is being well served by being put under the thumb of a single IT provider. The state is alienating the small companies that differentiate themselves by the quality of their work. Unfortunately the people that work for the state that are affected the most are unable to talk about these things because of a clause in their contract that says they must go through their communications representative. There was supposed to be an oversight committee that would ensure fair practices but I don't see anything to that effect. The relationship Comsys has gained also seems in direct violation of State Statute 16.75(4)(a) which encourages state contracts with small business. "The department shall encourage the participation of small businesses and veteran-owned businesses in the statewide purchasing program by ensuring that there are no undue impediments to such participation and by actively encouraging small businesses and veteran-owned businesses to play an active role in the solicitation of purchasing business by agencies."

Ultimately I would love to see my small business grow and be able to work directly with the State of Wisconsin. I believe I have provided excellent service through the years to many different agencies and would like to continue to do so.

Richard Sawyer  
Sawyer Consulting, LLC.  
W5282 Exeter Crossing Rd.  
Monticello, WI 53570







STATE OF WISCONSIN

Legislative Audit Bureau

M = Lasce  
S = Kerkman

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Janice Mueller  
State Auditor

DATE: December 12, 2007

TO: Senator Jim Sullivan and  
Representative Suzanne Jeskewitz, Co-chairpersons  
Joint Legislative Audit Committee

FROM: Janice Mueller  
State Auditor *Janice Mueller*

SUBJECT: Proposed Audit of the Accountability, Consolidation, and Efficiency (ACE)  
Initiative—Background Information

Sen  
A Sullivan  
A Lassa  
N Miller  
A Cowles  
A Lasce

Rep  
A Jeskewitz  
A Rhoades  
A Kerkman  
A Lollen  
A Parisi

At your request, we have gathered some background information the Joint Legislative Audit Committee may find useful in considering an audit of the Accountability, Consolidation, and Efficiency (ACE) Initiative. In March 2005, the ACE Initiative was announced as a strategy for pursuing savings in procurement, state facilities management, human resources, and information technology. By implementing more efficient and effective ways for state agencies to buy goods and services, use computing and other state resources, and hire employees, it was anticipated that the ACE Initiative would save the State up to \$200.0 million over four years.

When the ACE Initiative was announced, it was anticipated that in the first two years consolidation of procurement would save taxpayers \$50.0 million, sales of surplus state land were expected to result in savings of \$36.0 million, and consolidating human resources staff from 17 smaller state agencies into the Department of Administration (DOA) would save \$860,000.

DOA calculated the amount that state agencies were anticipated to save by participating in the ACE Initiative, such as by purchasing office supplies and other items under contracts that are negotiated by DOA. In recent years, many state agencies have been required to lapse their portion of the savings obtained from the contracts to the General Fund.

An audit of the ACE Initiative could include:

- a review of the amounts that state agencies have been required to lapse to the General Fund as a result of their participation in the ACE Initiative, as well as an analysis of how those amounts were calculated;
- an analysis of the number and type of positions transferred from state agencies to DOA as part of the ACE Initiative;

- a review of selected ACE Initiative contracts that have been executed, including those that have been cancelled or rebid;
- an analysis of the contract waivers DOA has granted to state agencies to allow them to make purchases under contracts not included in the ACE Initiative;
- an update on the status and expenditures of the ACE Initiative's information technology component, which we analyzed in our *Review of Information Technology Projects* (report 07-5); and
- a review of future plans for the ACE Initiative, including the amount and nature of anticipated future savings.

I hope you find this information helpful. If you have any additional questions, please contact me.

JM/DS/bm

cc: Senator Julie Lassa  
Senator Mark Miller  
Senator Alan Lasee  
Senator Robert Cowles

Representative Samantha Kerkman  
Representative Kitty Rhoades  
Representative David Cullen  
Representative Joe Parisi

Michael Morgan, Secretary  
Department of Administration



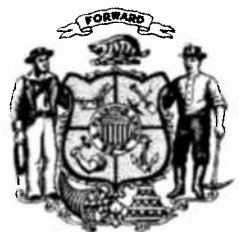
Proposed Audit on ACE Initiative  
Co-chair Questions for Legislative Audit Bureau  
March 19, 2008

Thank you, State Auditor Mueller, for outlining the scope for this proposed audit. I am concerned that as we consider the parameters for this audit effort, we must do so with an awareness of how the audit can be used both to evaluate past efforts and, at the same time, address the fiscal challenges currently confronting the state. So, with an eye toward clarifying and focusing, I have a few questions relating to the December 2007 scope memorandum:

- 1) I believe that there is some ambiguity about what the ACE Initiative is and what it is not. In fact, I imagine that each of us on the Committee might have a slightly different understanding of what ACE is. Would you please describe the source or sources LAB might use to define the ACE Initiative?
- 2) The fifth bullet describes an effort to “update the status and expenditures of the ACE Initiative’s information technology component.” LAB examined IT issues comprehensively in its 2007 report on *Information Technology Projects* and in subsequent legislative follow-up on that report. Would you please explain what an “update” would entail?
- 3) The third bullet speaks to a “review of selected ACE Initiative contracts that have been executed.” Given state’s current fiscal concerns, would LAB’s efforts in this area focus principally on past and current contracts for state procurement and purchasing?
- 4) The second bullet envisions “an analysis of the number and type of positions transferred from state agencies to DOA as part of the ACE Initiative.” My current understanding is that these position transfers were largely for human resource, payroll, and procurement consolidation. Is that correct?
- 5) I understand that the sale of state-owned real property was also a component of this efficiency effort. Would a review of such sales be included in this audit effort?



# WISCONSIN STATE LEGISLATURE



Proposed Audit on ACE Initiative  
Co-chair Questions for Legislative Audit Bureau  
April 10, 2008

Thank you, State Auditor Mueller, for outlining the scope for this proposed audit. I am concerned there is some ambiguity about what the ACE Initiative is and is not. In fact, I believe each of us on the committee may have a slightly different understanding of what ACE is. To ensure we are all on the same page, and with an eye toward clarifying and focusing, I have a few questions regarding the December 2007 scope memorandum.

- 1) Would you please describe the source or sources LAB might use to define the ACE Initiative?
- 2) Many of the concepts we have been talking about, efficiency, consolidation, etc., are a way of doing business. They are ongoing efforts private businesses utilize all the time to streamline operations and save money. How will LAB go about selecting which contracts and efficiency efforts are part of the ACE Initiative and which are simply a way of doing business?
- 3) The fifth bullet describes an effort to “update the status and expenditures of the ACE Initiative’s information technology component.” LAB examined IT issues comprehensively in its 2007 report on *Information Technology Projects* and in subsequent legislative follow-up on that report. Would you please explain what an “update” would entail?
- 4) I understand that the sale of state-owned real property was also a component of this efficiency effort. Would a review of such sales be included in this audit effort and what would it include?





Dear Mr. Barkow,

Thank you for your email. I appreciate your interest and concern regarding the ACE Initiative.

As you may know, the Joint Legislative Audit Committee (JLAC) approved an audit of the ACE Initiative on April 10, 2008. I have attached a copy of the audit scope that the committee considered for approval, however it was amended slightly during the audit hearing to clarify that the ACE Initiative would be defined by 2005 Wisconsin Act 25. The Committee also asked that the audit examine the sale of excess real estate. There also was testimony at the audit hearing from Mr. Bill Smith of the National Federation of Independent Businesses who raised similar concerns to the ones you raise in your email. You may listen to the hearing at the following link, [http://www.legis.wisconsin.gov/lab/JCAHearing/JCAHearing4\\_10\\_08.htm](http://www.legis.wisconsin.gov/lab/JCAHearing/JCAHearing4_10_08.htm).

As co-chair of the JLAC for the last five years it has been my practice not to meet to with interested parties while the non-partisan Legislative Audit Bureau (LAB) is performing the audit because at this point the audit has commenced and is out of the committee's hands until the audit is completed. However, I will share this information with the LAB and ask them to contact you for further information if needed.

The Speaker's Taskforce on Information Technology Failures did look at specific IT projects, but not from the perspective of how changes in the project or IT policy may have impacted small business. Although the taskforce has concluded, the new Joint Committee on Information Policy and Technology, chaired by Senator Pat Kreitlow (Co-Chair) and Representative Phil Montgomery (Co-Chair) has begun to meet and this committee may be an appropriate venue to voice your concerns.

Finally, I am happy to make sure that you are apprised when the audit is completed and see that you are notified of any public hearings held on this matter so you may testify if you choose to do so.

Sincerely,

Sue

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**From:** CLARENCEBARKOW@sprintpcs.com [mailto:CLARENCEBARKOW@sprintpcs.com] **On Behalf Of** Chuck Barkow  
**Sent:** Friday, April 25, 2008 10:14 AM  
**To:** Rep.Jeskewitz  
**Subject:** Meeting per suggestion of Rep Joan Ballweb

Per our phone conversation earlier this morning this is the list of topics I and two other Information Technology small business owners would like to discuss with Rep. Jeskewitz.

One point of clarification. We three IT small businesses provide labor resources to the State via the IT Services contract. We do not provide resources via the Request For Proposal (RFP)

process, we provide them via the Request For Services (RFS) process. RFP's are used for big ticket projects when a vendor must provide a significant amount of resources. RFS's are used when an agency requires one or two contractors to augment their staff for a particular project.

- The ACE Initiative was dropped by DOA last year, though only recently announced. The changes DOA instituted two years ago in a new IT Services contract due to ACE resulted in a higher cost of doing business with the State. In testimony we provided to the Assembly Small Business Committee last May we estimated the cost to IT contractors is between \$2,000,000 to \$4,000,000 per year. In my case my company, UniServ Solutions Inc, employee count of one, incurred a cost of doing business with the State of \$12,600 since July 2005. I have attached two files which I submitted as testimony. The Word document describes the contents of the spreadsheet.
- There is now a category of small business that is too small to do business with the State. I am one of those. Prior to ACE I was doing business with the State, after ACE I was required to subcontract to a larger business that was allowed to do business with the State. They take a percentage of my revenue.
- DOA implemented a Vendor Management System (VMS) in late 2005. DOA contracts with a company, Comsys, to manage the vendors on the IT Services contract. The cost of the VMS is paid by the IT contracts. I went from a subcontractor to a sub-subcontractor. I contracted with a company that is on the IT Services contract, they contract with Comsys, and Comsys contracts with the State. Each of these take a percentage of my revenue.

The layers that now exist between the State and us, that we must pay for, are the equivalent of a revenue tax of 2.5% to 11% (see attached spreadsheet). There is no business value to small businesses. We are also not aware of any other vendor group that has this type of arrangement with the State, only IT RFS contractors.

We have also been unable to discover the benefit to the State. DOA has not answered our queries related to this. Agencies that we've spoken to also fail to see its value. This was not an improvement justifying its cost.

I see that Rep. Jeskewitz is also on the Speaker's Task Force on Information Technology Failures. Our experiences in State IT project subject. If ACE is off the table we can provide insight on this if she would wish.

I hope we have the opportunity to meet on one or both of these issues.

Thank you.

Chuck Barkow  
UniServ Solutions Inc  
608-774-0631



**Matthews, Pam**

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**From:** Handrick, Diane  
**Sent:** Friday, April 25, 2008 10:30 AM  
**To:** 'Jim Jeskewitz'  
**Cc:** Matthews, Pam  
**Subject:** FW: Meeting per suggestion of Rep Joan Ballweg  
**Attachments:** Committee testimony 2.doc; ATT2208495.htm; Committee testimony 2.xls; ATT2208496.htm

Sue, this man called today requesting a meeting with you based on his meeting with Joan Ballweg.

Please read this email and let me know if you want to meet with him about ACE and/or Information Technology.

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04/29/2008

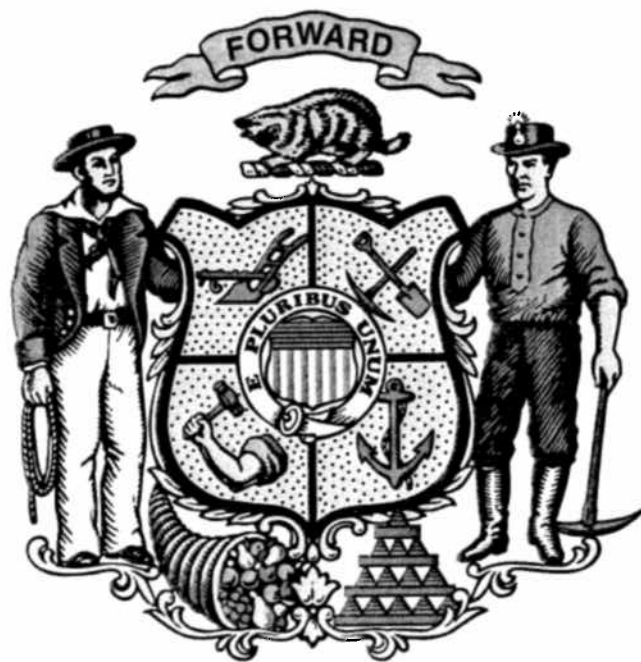
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Thank you.

Chuck Barkow  
UniServ Solutions Inc  
608-774-0631



The following spreadsheets and graphs are being submitted as written testimony by Chuck Barkow, UniServ Solutions, Edgerton, WI. This testimony is supplemental to the verbal testimony I gave. It shows the additional costs of doing business with the State of Wisconsin as a result of the new Information Technology (I.T.) Services contract created by the Department of Administration in 2005 and DOA institution of a Vendor Management Service (VMS) provided by COMSYS in 2006. These were instituted by DOA as a result of the ACE Initiative.

There are two sections of spreadsheets and graphs. The first section pertains to primes. Primes are vendors that DOA considers large enough to be allowed onto the IT Services. The second section pertains to subcontractors. Subcontractors are vendors DOA considers too small to be allowed onto the IT Services contract. Those too small businesses must subcontract under a prime in order to provide IT services to the State.

Each section shows a number of hourly rates paid by the State, \$35 - \$80. This is not the complete range of rates but is sufficient to represent costs of doing business.

I understand there are approximately 400 contractors providing services to the State via the IT Services contract. These 400 are a mixture of subcontractors and employees of primes. It is possible to estimate the total cost of doing business with the State as a result of ACE if a number of things are known:

- The number of contractors that are subcontractors
- The number of contractors that are employees of primes
- The average hourly rate paid by the State
- The average hourly rate paid by subcontractors to primes

I have not been able to acquire these numbers. Because of that I have added a "400 Contractors" column to every spreadsheet showing what the total additional cost of doing business with the State would be if all 400 contractors were in that category. Looking at the numbers in the spreadsheets it appears to me that the 400 contractors are paying between \$2,000,000 and \$3,000,000 annually to provide services to the State. This additional cost is the direct result of the IT Services contract resulting from ACE.

This describes the section on primes.

The computation of total dollars is based upon the average number of hours worked as computed by the Federal Bureau of Labor Statistics. See <http://data.bls.gov/PDQ/outside.jsp?survey=ce>, Average Weekly Hours of Production Workers, Total Private.

The spreadsheet shows a breakdown of different hourly rates the State pays for employees of primes providing IT services to the State via the IT Services contract. Every hour a prime employee bills results in COMSYS receiving 2.5% of what the State pays. The prime receives the net hourly rate; State Pays – 2.5% to COMSYS. The Annual Cost of Doing Business with the State is the net hourly rate the prime receives times the annualized Bureau of Labor Statistics average hours worked per week. The % of Revenue is the COMSYS fee as a percent of the State Pays rate. The graph represents the Annual Cost of Doing Business with the State column.



This describes the section on subcontractors.

The computation of total dollars is based upon the average number of hours worked as computed by the Federal Bureau of Labor Statistics. See <http://data.bls.gov/PDQ/outside.jsp?survey=ce>, Average Weekly Hours of Production Workers, Total Private.

The spreadsheet shows a breakdown of different hourly rates the State pays for subcontractors of primes providing IT services to the State via the IT Services contract. Every hour a subcontractor bills results in the prime receiving an hourly cut plus COMSYS receiving 2.5% of what the State pays. The subcontractor receives the net hourly rate; State Pays – Prime cut – 2.5% to COMSYS. The Annual Cost of Doing Business with the State is the net hourly rate the subcontractor receives times the annualized Bureau of Labor Statistics average hours worked per week. The % of Revenue is the prime cut plus the COMSYS fee as a percent of the State Pays rate.

There are three versions of the spreadsheet. Each represents a different rate the prime takes from the subcontractor. Only three rates are shown to represent the cost changes to subcontractors. These three rates do not represent the only rates charged by primes to subcontractors. The highest rate known is \$5.00/hour.

The first graph shows the percent of revenue the subcontractor has lost due to ACE because of paying the prime plus COMSYS. The three depths of the graph represent the lose due to COMSYS plus each rate a prime charges the subcontractor.

The second graph shows the average annual dollars a subcontractor has lost due to ACE because of paying the prime plus COMSYS. The three depths of the graph represent the lose due to COMSYS plus each rate a prime charges the subcontractor.

Average		
Hours/Week	Weeks/Month	Hours/Month
33.7	4.33	146
		1,752

Bureau of Labor Statistics

Subcontractor Cost of Doing Business  
 Prime Hourly Charge - \$1.00/hour

State Pays	Hourly		Subcontractor Net Hourly Rate	Annual Cost of Doing Business with the State	% of Revenue	Contractors
	Middlemen	COMSYS				
\$35	\$1.00	\$0.88	\$33.13	\$3,286	5.4%	\$1,314,300
\$40	\$1.00	\$1.00	\$38.00	\$3,505	5.0%	\$1,401,920
\$45	\$1.00	\$1.13	\$42.88	\$3,724	4.7%	\$1,489,540
\$50	\$1.00	\$1.25	\$47.75	\$3,943	4.5%	\$1,577,160
\$55	\$1.00	\$1.38	\$52.63	\$4,162	4.3%	\$1,664,780
\$60	\$1.00	\$1.50	\$57.50	\$4,381	4.2%	\$1,752,400
\$65	\$1.00	\$1.63	\$62.38	\$4,600	4.0%	\$1,840,020
\$70	\$1.00	\$1.75	\$67.25	\$4,819	3.9%	\$1,927,640
\$75	\$1.00	\$1.88	\$72.13	\$5,038	3.8%	\$2,015,260
\$80	\$1.00	\$2.00	\$77.00	\$5,257	3.8%	\$2,102,880

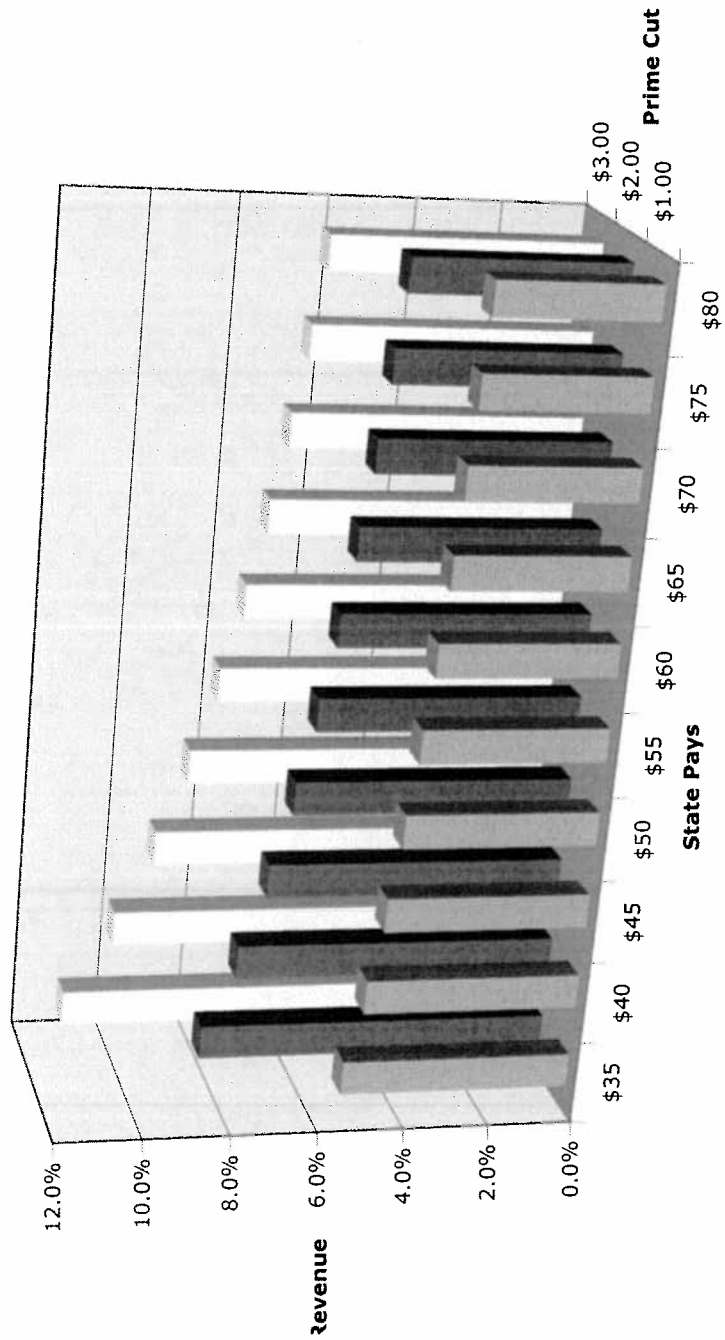
Subcontractor Cost of Doing Business  
 Prime Hourly Charge - \$2.00/hour

State Pays	Hourly		Subcontractor Net Hourly Rate	Annual Cost of Doing Business with the State	% of Revenue	Contractors	400
	Middlemen						
	Prime	COMSYS					
\$35	\$2.00	\$0.88	\$32.13	\$5,038	8.2%	\$2,015,260	\$
\$40	\$2.00	\$1.00	\$37.00	\$5,257	7.5%	\$2,102,880	\$
\$45	\$2.00	\$1.13	\$41.88	\$5,476	6.9%	\$2,190,500	\$
\$50	\$2.00	\$1.25	\$46.75	\$5,695	6.5%	\$2,278,120	\$
\$55	\$2.00	\$1.38	\$51.63	\$5,914	6.1%	\$2,365,740	\$
\$60	\$2.00	\$1.50	\$56.50	\$6,133	5.8%	\$2,453,360	\$
\$65	\$2.00	\$1.63	\$61.38	\$6,352	5.6%	\$2,540,980	\$
\$70	\$2.00	\$1.75	\$66.25	\$6,572	5.4%	\$2,628,600	\$
\$75	\$2.00	\$1.88	\$71.13	\$6,791	5.2%	\$2,716,220	\$
\$80	\$2.00	\$2.00	\$76.00	\$7,010	5.0%	\$2,803,840	\$
							<b>Annual Cost</b>

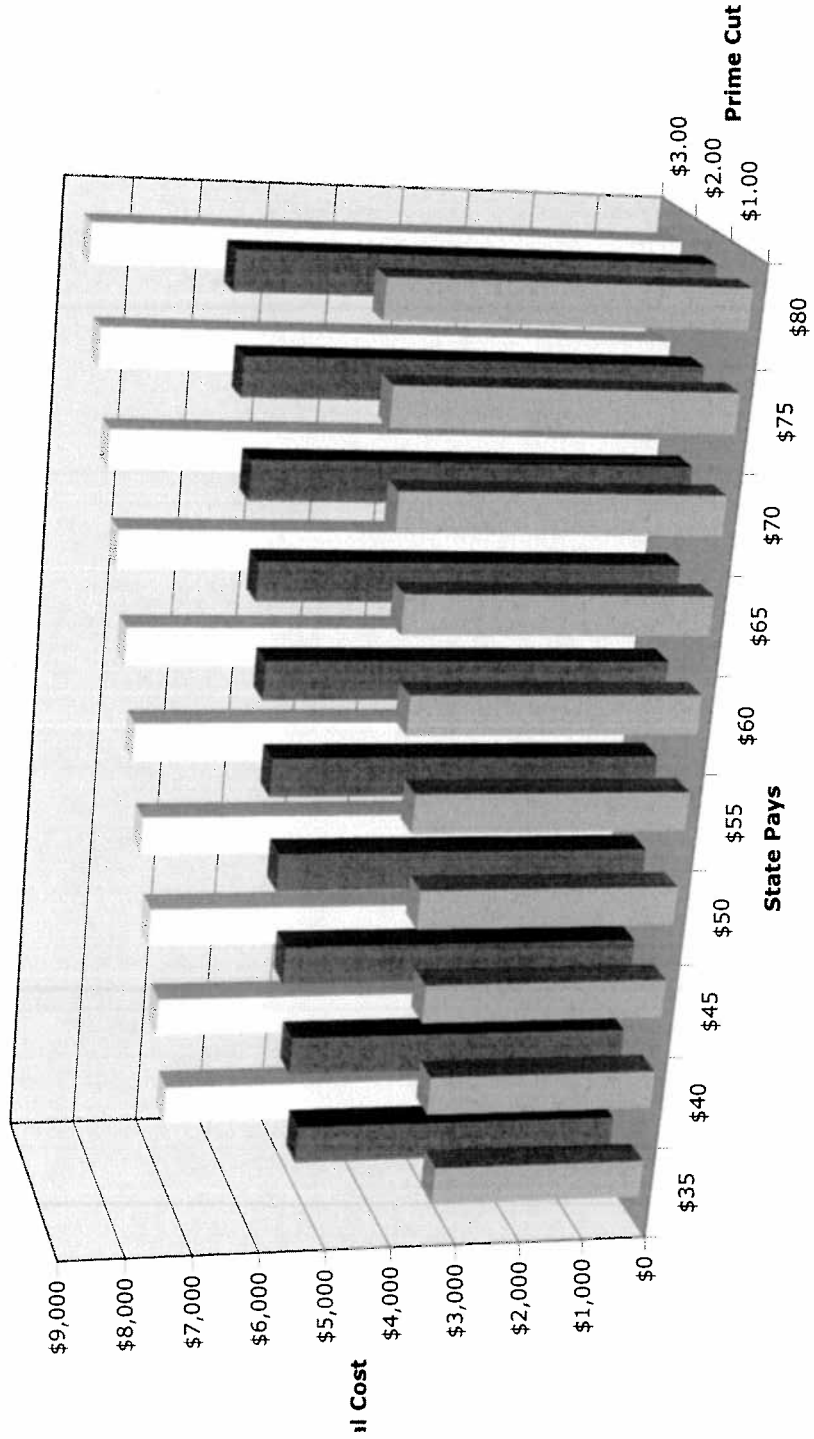
Subcontractor Cost of Doing Business  
 Prime Hourly Charge - \$3.00/hour

State Pays	Hourly		Subcontractor Net Hourly Rate	Annual Cost of Doing Business with the State	% of Revenue	Contractors
	Prime	Middlemen COMSYS				
\$35	\$3.00	\$0.88	\$31.13	\$6,791	11.1%	\$2,716,220
\$40	\$3.00	\$1.00	\$36.00	\$7,010	10.0%	\$2,803,840
\$45	\$3.00	\$1.13	\$40.88	\$7,229	9.2%	\$2,891,460
\$50	\$3.00	\$1.25	\$45.75	\$7,448	8.5%	\$2,979,080
\$55	\$3.00	\$1.38	\$50.63	\$7,667	8.0%	\$3,066,700
\$60	\$3.00	\$1.50	\$55.50	\$7,886	7.5%	\$3,154,320
\$65	\$3.00	\$1.63	\$60.38	\$8,105	7.1%	\$3,241,940
\$70	\$3.00	\$1.75	\$65.25	\$8,324	6.8%	\$3,329,560
\$75	\$3.00	\$1.88	\$70.13	\$8,543	6.5%	\$3,417,180
\$80	\$3.00	\$2.00	\$75.00	\$8,762	6.3%	\$3,504,800

### Subcontractor Cost of Doing Business as % of Revenue



**Per Subcontractor Annual Cost of Doing Business**





## Lawmakers call for audit of ACE program

By Patrick Marley

Wednesday, Jan 9 2008, 02:33 PM

**Madison** -- The leaders of the Legislature's Joint Audit Committee say they want to review Democratic Gov. Jim Doyle's cost-saving and efficiency program.

Doyle's Accountability, Consolidation and Efficiency (ACE) program has a patchy track record. Doyle has said the effort has saved millions, but some of the key projects touted in the program haven't panned out.

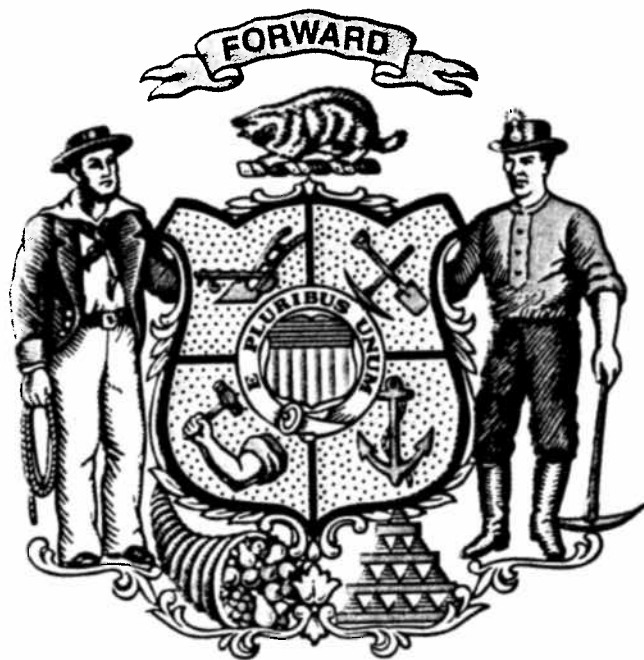
The state canceled two ACE contracts to consolidate its computer servers and streamline state e-mail systems after facing numerous technology glitches. Meanwhile, some agencies have said plans to make procurement more efficient have not saved as much as they were supposed to.

State Sen. Rob Cowles (R-Green Bay) asked for an audit of the program in May. The Joint Legislative Audit Committee was to vote on Cowles' request in December, but the meeting was canceled at the last minute.

This week the co-chairs of the committee -- Sen. Jim Sullivan (D-Wauwatosa) and Rep. Sue Jeskewitz (R-Menomonee Falls) -- said they supported the audit and expected to approve it soon. Sullivan said the vote could come before the end of the month.

The two also said they supported an audit proposed by Rep. Joe Parisi (D-Madison) that would examine mental illness within state prisons.







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## State efficiency program quietly ditched; audit planned

JASON STEIN  
608-252-6129  
April 10, 2008

Gov. Jim Doyle's administration last year quietly dropped a much-touted savings program that suffered several high-profile setbacks, state officials said Thursday.

The news came as a legislative committee voted 9-1 to approve an audit of the program, which the Doyle administration said in 2005 could save the state up to \$200 million over four years by finding more efficient ways to buy state goods and manage state computers and real estate.

A Republican lawmaker called for the audit after the Wisconsin State Journal reported in May that the Doyle administration had canceled several contracts with companies working on the Accountability, Consolidation and Efficiency initiative. One of those was canceled after a federal indictment of a contractor.

"The state is in a budget hole right now, and we have to do everything we can to make sure the state is spending taxpayer dollars as wisely as possible," Sen. Rob Cowles, R-Green Bay, said of the audit.

### Short of goals

Dan Schooff, the deputy secretary of the Department of Administration, acknowledged the ACE program fell short of its goals but said an audit was unneeded. He said the program ought to be judged on its contribution to \$35.5 million in belt-tightening measures and \$36 million in real estate sales called for by lawmakers as part of the 2005-07 budget.

Schooff said the state stopped the ACE initiative last summer and took down the Web site associated with the program. He said it was a "mistake" to tout a goal of up to \$200 million in savings over four years in a press release sent out soon after the program started.

Under the ACE initiative, state agencies were required to return to the state's main account the money the Department of Administration maintained they saved through the program.

But several agency heads complained the program wasn't so much saving the state money on its purchases as it was simply cutting

agencies' procurement budgets.

Schooff said the program did save about \$8 million through cheaper purchases of supplies in the 2005-07 budget, far short of the \$35.5 million agencies had to forfeit. The state also sold only \$9 million of the \$36 million in excess real estate it hoped to sell during those years, he said.

### **Broker charged**

Since the program ended, the Legislative Audit Bureau will examine whether it actually saved money and also how well the state's current efficiency programs are working, state auditor Janice Mueller told the committee.

A prominent part of the ACE initiative, a multimillion-dollar deal with the real estate firm UGL Equis Corp. of Chicago, was canceled in May after a broker working with the company was charged in federal court in Milwaukee with soliciting a kickback on the proposed sale of a prominent state building Downtown. That broker, Larry J. Lupton, maintains his innocence, and the case is still winding its way through court.

In addition to the Equis contract, the four canceled ACE contracts included agreements dealing with computers and related equipment.

An audit released a year ago by the Audit Bureau was harshly critical of two components of the ACE initiative — efforts to consolidate the state's e-mail accounts to a single format and to restructure a system of back-office computers called servers. The audit questioned savings and cost estimates by the Department of Administration about those projects, saying neither one could demonstrate any savings at that time.

The committee also unanimously approved an audit of the treatment of state prison inmates with mental illnesses.

Rep. Joe Parisi, D-Madison, who called for the review, said he hoped it would help improve the treatment of mentally ill inmates and eventually reduce their numbers in state prisons.

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