



PERFORMANCE AUDIT REPORT

State Contracts: Determining Whether the State's Office-Supply Vendor Is Providing Products To State Agencies at Agreed-Upon Prices

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
March 2009**

Legislative Post Audit Committee

Legislative Division of Post Audit

THE LEGISLATIVE POST Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$13 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U.S. Government Accountability Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

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Barbara J. Hinton, Legislative Post Auditor

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You won't receive an individual response, but all ideas will be reviewed, and Legislative Post Audit will pass along the best ones to the Legislative Post Audit Committee.

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March 17, 2009

To: Members, Legislative Post Audit Committee

Representative Virgil Peck Jr., Chair	Senator Terry Bruce, Vice-Chair
Representative Tom Burroughs	Senator Anthony Hensley
Representative John Grange	Senator Derek Schmidt
Representative Peggy Mast	Senator Chris Steineger
Representative Tom Sawyer	Senator Dwayne Umbarger

This report contains the findings, conclusions, and recommendations from our completed performance audit, *State Contracts: Determining Whether the State's Office-Supply Vendor Is Providing Products To State Agencies at Agreed-Upon Prices*.

The report includes several recommendations for the Division of Purchases which should help them identify and minimize potential overcharges. We would be happy to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other State officials.

A handwritten signature in black ink that reads "Barbara J. Hinton". The signature is fluid and cursive.

Barbara J. Hinton
Legislative Post Auditor

READER'S GUIDE

<i>The Big Picture</i>		<i>The Details</i>	
Executive Summary	Provides an overview of the questions we asked and the answers we found	“At-a-Glance Box”	Used to describe key aspects of the audited agency; generally appears in the first few pages of the main report
Conclusions and Recommendations	Located at the end of the report sections, and referenced in the Executive Summary	Side Headings	Point out key issues and findings
Agency Response	Included as the last Appendix in the report	Charts, Tables, and Graphs	Visually help tell the story of what we found
List of Figures	Lists all figures used in the report and their location (as shown at the end of the Executive Summary)	Narrative Text Boxes	Highlight interesting information or provide detailed examples

This audit was conducted by Randy Tongier, Nathan Enz, and Alex Gard. Leo Hafner was the audit manager. If you need any additional information about the audit's findings, please contact Randy Tongier at the Division's offices.

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State Contracts: Determining Whether the State's Office-Supply Vendor Is Providing Products To State Agencies at Agreed-Upon Prices

An April 2008 report from the Nebraska Auditor of Public Accounts noted that roughly one-third of the 152 core items listed in Nebraska's contract with Office Depot weren't priced correctly on one or more of the billing statements the auditors reviewed. All 53 errors resulted in overcharges to Nebraska state agencies—the highest one was 407% more than the agreed-upon contract price. For example, the vendor reportedly charged \$3.48 for scissors that were listed in the contract for \$1.46 each. States such as California, Georgia, and North Carolina reportedly have encountered similar problems with their Office Depot supply contracts.

Kansas has a Statewide contract for office supplies with Corporate Express, which was acquired in July 2008 by Staples, the world's largest office products company. A review of records from the State's accounting system shows that State agencies have spent about \$8 million with Corporate Express in each of the past two fiscal years.

The experiences of Nebraska and other states raised questions about whether Kansas agencies are receiving the agreed-upon price when purchasing office supplies. This performance audit answers the following question:

Is the State's office-supply vendor providing products at the agreed-upon price?

To answer this question, we selected a random sample of 102 payments made by 32 State agencies for products purchased from the State's office-supply contract during the first half of fiscal year 2008. In all, those 102 payments included 1,425 distinct products from the State's office-supply contract. We compared the price each agency paid to the contract prices in effect at the time, and investigated the reasons for discrepancies. In addition, we asked purchasing officers from each agency in our sample to tell us about any problems they had encountered with incorrect pricing—either on the State office-supply contract, or on other Statewide contracts they had used.

A copy of the scope statement for this audit approved by the Legislative Post Audit Committee is included in Appendix A.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Question 1: Is the State's Office-Supply Vendor Providing Products at the Agreed-Upon Price?

Answer In Brief:

During the six-month period we reviewed, State agencies spent \$3.6 million on purchases from Corporate Express. Based on a random sample of 102 payments made for products purchased by State agencies under the contract, we determined that there were a large number of purchases for which contract prices couldn't be verified because the items purchased didn't appear on price lists the vendor provides to the State. For the payments for which pricing information was available—about \$3 million—we determined that there were a number of overcharges and undercharges, but overall State agencies were undercharged by about 2%, or about \$65,000, over the six-month period. Agencies we contacted for this audit reported a few pricing issues with the office-supply contract and other Statewide contracts. For the most part, those issues appear to be sporadic in nature and usually satisfactorily corrected by the vendors. These and related findings are discussed in more detail in the sections that follow.

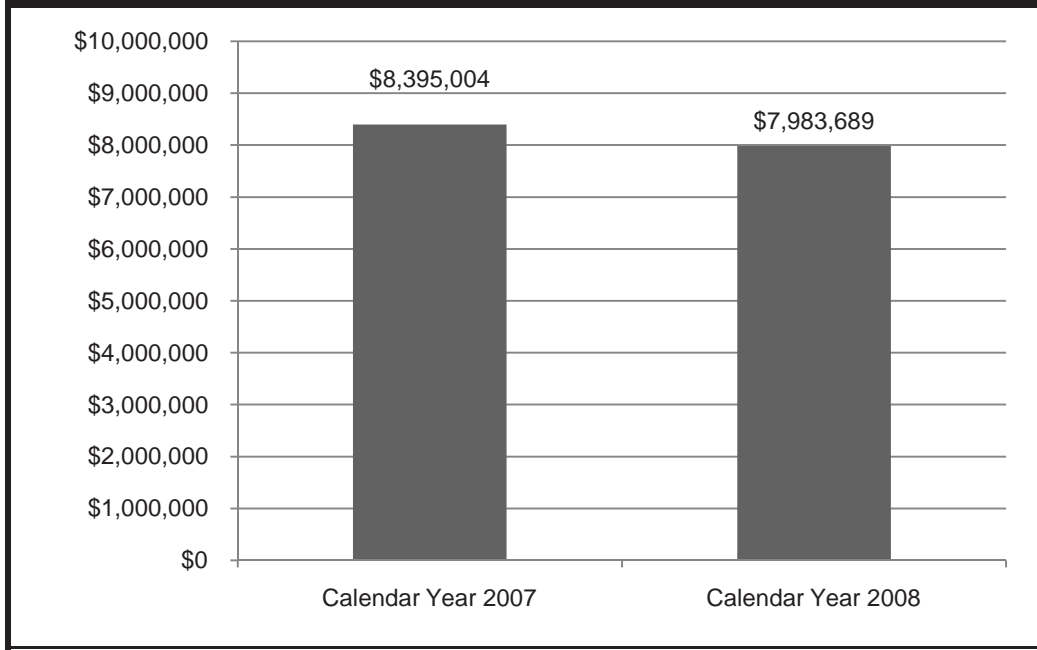
State and Local Agencies Bought About \$8 Million From the State's Office-Supply Contract In 2007 and 2008

The State's contract with Corporate Express initially was awarded in January 2005. It was recently renewed for calendar year 2009, with options to renew for three additional one-year periods. Under the contract, Corporate Express provides price lists with discounts on commonly purchased items to the Division of Purchases, and the Division posts those lists on its website. According to Division of Purchases officials products Corporate Express sells that are not on the price lists also are supposed to be discounted to a price that represents the company's cost plus 14%. The products offered under the contract are available to State agencies and to political subdivisions such as cities, counties, and school districts. If a State agency locates a vendor that can provide the identical item at a lower price, it can ask the Department of Administration's Division of Purchases for a waiver to buy "off contract."

State agencies and other governmental units typically order products through Corporate Express' website (www.eway.com). This website also lists the agreed-upon prices. However, Division of Purchases officials told us that, in rare cases, the prices shown on Corporate Express' website may not match up to the price lists. In those cases, they said agencies should rely on the price lists on the Division of Purchases' website.

Figure 1-1 on page 4 shows the amounts spent by State agencies and local governmental units under the State's office-supply contract during the two most recently completed calendar years.

**Figure 1-1
Total Dollars Spent on Corporate Express Orders
For Calendar Years 2007 and 2008**



Source: Unaudited information provided to Division of Purchases by Corporate Express.

To determine whether State agencies received the contract price when they ordered office supplies and other items from Corporate Express, we selected a random sample of 102 payments from the approximately \$3.6 million in purchases State agencies made during the first half of fiscal year 2008. Purchases from 32 different agencies were included in our sample. We compared the items agencies bought with the contract prices.

A payment may be for a single order or multiple orders, and each order could be for a single item or multiple items. In all, agencies bought almost 2,000 items through the 102 sample payments we reviewed. Of those, 1,425 were distinct products. These sample payments accounted for about \$165,000 of the \$3.6 million in purchases State agencies made during that six-month period.

***Contract Prices
Weren't Available for
Some of the Items
Agencies Purchased from
Corporate Express***

For about \$23,500 of approximately \$165,000 in payments we reviewed, the product prices weren't on the Division of Purchases' price lists. By and large, the 234 unique items we couldn't find prices for were everyday items you would expect to be on the price lists, such as mechanical pencils, Post-It flags, rubber bands, and pens.

Our sample was drawn in such a way that we can be 95% confident that about \$590,000 of the total dollars State agencies spent with

Corporate Express during the first half of fiscal year 2008 went for items that were not on the price lists.

Division of Purchases officials told us that it wouldn't be unusual for unique items that are purchased infrequently not to be on the price lists, but they indicated that most commonly purchased items such as the things we identified should be.

We also spoke with Corporate Express officials, who told us items may not appear in their price list for various reasons. They cited examples of items that had been discontinued, and items they had sold to State agencies that they got from other manufacturers. They also said new items weren't consistently being added to the States price list after the original list was assembled in 2004.

Division of Purchases told us they rely on agency purchasing officers and periodic audits conducted by the Division of Accounts and Reports to help ensure that agencies are charged the correct contract prices. However, without a published contract price, or a way to calculate what the contract price is supposed to be, there's no way for anyone to tell whether agencies are being charged the contract amount.

For the Remaining Purchases in Our Sample, Agencies Were Undercharged By About 2%

Because six of our 102 sample payments only contained items for which no contract price was available, we had to exclude them from our remaining analyses. For the remaining 96 payments in our sample, contract prices were available for 1,191 of the unique items purchased, and these sample payments accounted for about \$142,000 in State agency purchases from Corporate Express.

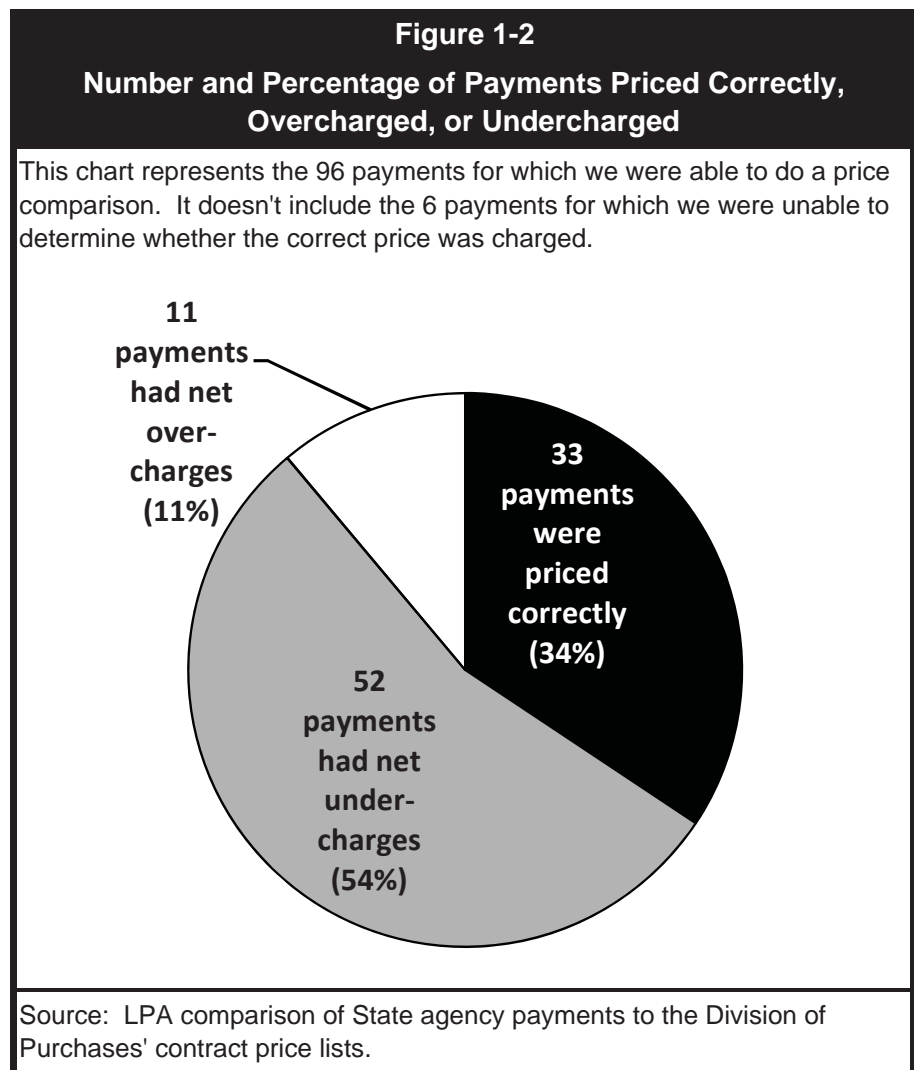
We compared the contract prices for each of those items with the amounts charged by Corporate Express. We then determined whether the total amount the agency was charged was correct, or was more or less than the agency should have been charged, given the established contract amounts.

Based on the 96 payments for which price information was available, we projected agencies were undercharged by about \$65,000 for office products they bought in the first half of fiscal year 2008. That translates to an undercharge rate of about 2% overall. Because our sample was drawn only from the first six-months of the year, we can't project our findings to the full year with any level of certainty.

In total, agencies were undercharged on 52 of the payments we reviewed. On individual payments we reviewed, some items may have been charged correctly, some may have been overcharged, and some may have been undercharged. In looking at the net amount agencies were charged for an entire payment, we found the following:

- for 33 payments (34% of the total), the amount the agency was charged was correct.
- for 52 payments (54%), the net amount the agency was charged was less than it should have been, given the contract prices for the items ordered.
- for 11 payments (11%), the net amount the agency was charged was more than it should have been, given the contract prices for the items ordered.

This information is illustrated in *Figure 1-2*.



At the individual item level, agencies were overcharged for 41 and undercharged for 154 of the 1,425 unique items we reviewed. Our findings are summarized below:

- **946 unique items were charged at the correct price (66%)**
- **50 unique items were sometimes charged at the correct price and sometimes over- or undercharged (4%)**
- **234 unique items had no prices available for comparison (16%)**
- **154 unique items were undercharged (11%).** The amount agencies were undercharged varied from 1¢ to \$125. Some examples:
 - The Kansas Highway Patrol bought a laser fax machine from Corporate Express for \$299.99. The contract price was \$424.99.
 - Wichita State University bought several 3-hole punches for \$16.50 each. The contract price was \$18.11.
 - The University of Kansas bought copier paper for \$2.59 a ream. The contract price was \$2.72.
- **41 unique items were overcharged (3%).** The amounts agencies were overcharged varied from 1¢ to \$84.70. Some examples:
 - The Department of Labor bought a paper shredder from Corporate Express for \$508.22. The contract price was \$423.52.
 - The University of Kansas bought a roll of invisible tape for \$8.30. The contract price was \$8.28.
 - Wichita State University bought several packs of CD jewel cases for \$13.02 each. The contract price was \$12.61.

We provided a list of these overcharges and undercharges to Division of Purchases officials for further investigation. They told us that the contract was created as a flexible purchasing tool for agencies to use to meet their diverse general office-supply needs. The Director also reported that State personnel meet with Corporate Express representatives regularly, and a dialog will be established to determine why pricing discrepancies exist and whether or not action had been taken to issue credits for overcharges.

We asked Corporate Express officials about the incorrect charges. They told us that, during the time period we reviewed, they gave individual agencies a price break if they were buying large quantities of goods. However, they said that with multiple prices being allowed it became difficult to keep track of what the correct price should be, which probably contributed to both overcharges and undercharges. They told us they have stopped giving State agencies different prices based on volume.

We also asked purchasing officials from several agencies with a number of undercharges why they had received prices lower than those listed on the contract price lists. In some cases, agency officials

said they hadn't noticed the undercharges. In other cases, they said they had notified Corporate Express but were told not to worry about it.

Most Pricing Issues Agencies Reported to Us About State Contracts Appeared To Be Occasional and Not Widespread

During this audit, we asked officials from the agencies whose purchases we sampled whether they had encountered any pricing issues with the State office-supply contract or with any other State contract. A breakdown of their responses is shown in **Figure 1-3**.

**Figure 1-3
Agencies Reporting Pricing Issues with Corporate Express or State Contracts**

Have you ever encountered any problems with <u>Corporate Express</u> billing you more than the contract price?		
Agency Response	Number	Percentage
Yes	7	22%
No	25	78%
Total	32	100%
Have you ever encountered any problems with <u>other contract vendors</u> not providing goods at the prices specified in their contracts?		
Agency Response	Number	Percentage
Yes	9	28%
No	23	72%
Total	32	100%

Source: LPA analysis of agency responses to questionnaires.

In all, 78% of the agency officials we contacted reported having no pricing issues regarding the Corporate Express contract. The seven agency officials that indicated they had experienced some billing problems with Corporate Express mostly said the billing issues were infrequent and didn't appear to be consistent or intentional.

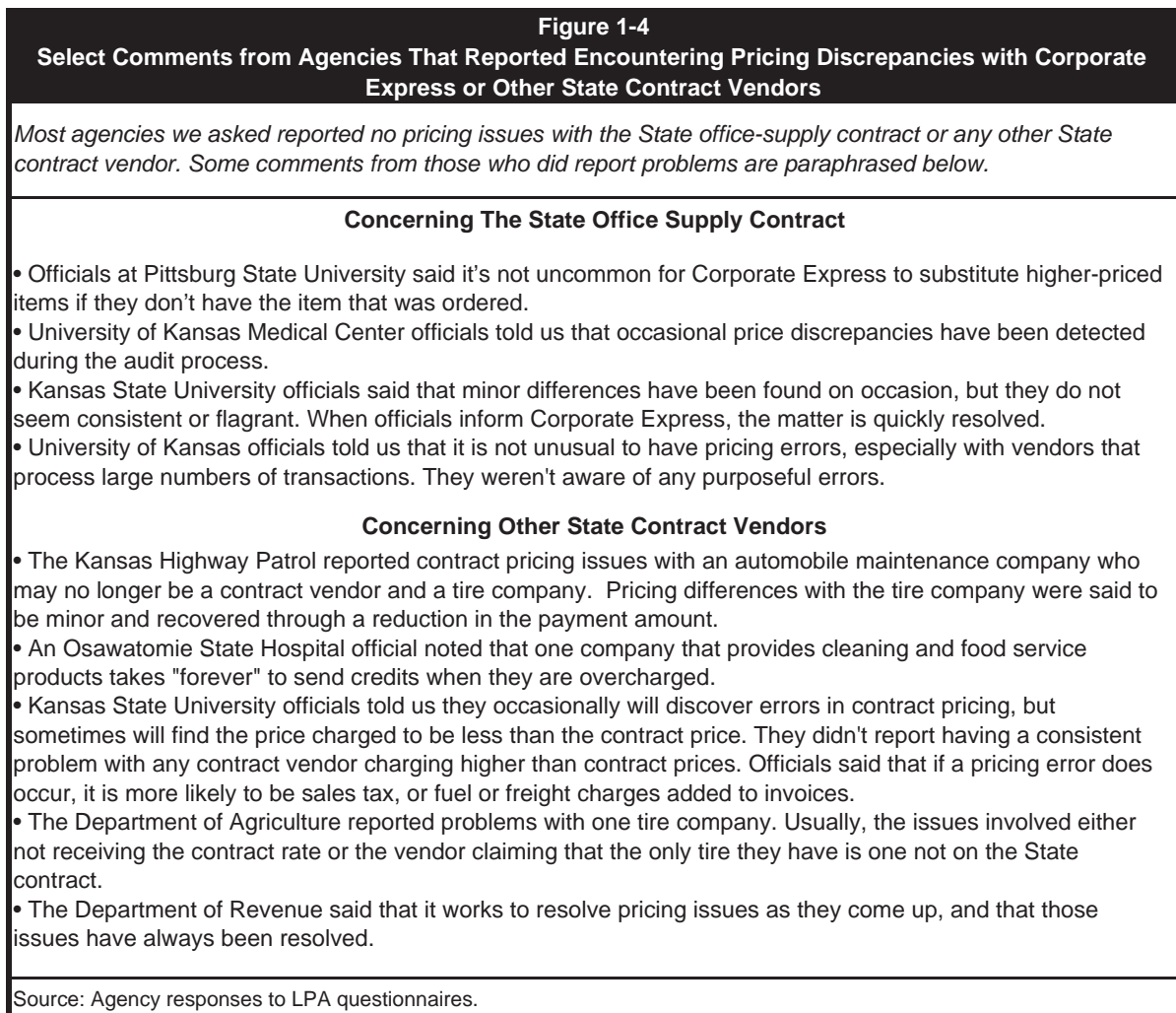
Officials in two agencies said they had encountered issues with Corporate Express' online billing. One agency official noticed a discrepancy between prices listed online in the electronic ordering system and those listed in the State contract. She reported the matter to Corporate Express and to the Division of Purchases, and said Corporate Express fixed the problem within a matter of weeks.

The other official said he had seen differences between the prices listed on the "shopping cart"—the feature on the Corporate Express website that appears before an order is placed—and those appearing in post-order confirmations and invoices. The official told us he didn't report the pricing discrepancies because it wasn't cost-effective to do so; he said it would have cost more in staff resources to follow up on a relatively minor pricing discrepancy than to pay the

overcharge. The official said overcharges occurred infrequently, and the amounts overcharged were relatively small. He also indicated that changes have been made to his agency's reconciliation process, a process in which purchase orders are compared to invoices and confirmation e-mails from the vendor to check for consistency between prices. Now, agency personnel wait to compare the prices in the confirmations with those on the purchase order before finalizing it.

Nearly three-fourths of the State agencies in our sample said they hadn't encountered problems with any other State contracts. Generally, the nine agencies that said they did encounter pricing issues indicated that problems with other vendors also were infrequent and usually were resolved quickly. There were no indications of widespread issues with individual vendors; in fact, no two agencies mentioned having problems with the same vendor.

Examples of the problems agencies mentioned for both the Corporate Express contract and other State contracts are listed in *Figure 1-4*.



Conclusion:

Although a significant number of items agencies purchased from Corporate Express were overcharged or undercharged during our time frame, we didn't find anything like the widespread systematic overcharges that auditors in Nebraska found. In fact, on balance we estimate that Kansas agencies were undercharged by about 2% for the purchases they made during the first half of fiscal year 2008, or by about \$65,000 when projected to all purchases State agencies made from Corporate Express during that period. Because no contract prices existed for supplies tied to about 17% of the total dollars we reviewed, there's no way for us or for agency officials to know whether those purchases were overcharged or undercharged.

Recommendations for Executive Action:

To ensure that State agencies are being charged the correct prices for products they buy under the State's office-supply contract with Corporate Express, the Division of Purchases should do the following:

- a. work with officials from Corporate Express to ensure that comprehensive and up-to-date price lists are available for items covered by the contract, and update the Division's website accordingly.
- b. investigate some of the larger overcharges to State agencies that we identified in this report, and obtain appropriate reimbursements or adjustments from Corporate Express when it is cost-effective to do so.
- c. send a notice to agency purchasing officials telling them to watch out for overcharges and explaining how to check prices on e-way against the price lists.

APPENDIX A

Scope Statement

This appendix contains the scope statement approved by the Legislative Post Audit Committee on November 18, 2008. The audit was requested by the Legislative Post Audit Committee.

SCOPE STATEMENT

State Contracts: Determining Whether the State's Office Supply Vendor Is Providing Products to State Agencies at Agreed-Upon Prices

In April 2008, the Office of the Nebraska Auditor of Public Accounts reported its findings from a review of the Nebraska Department of Administrative Service's oversight of its contract with Office Depot. During the review, auditors looked at prices charged on five monthly billing statements from Office Depot. The auditors noted that 53 of 152 core items listed in the contract were not priced correctly on one or more of the monthly statements reviewed. All 53 errors resulted in overcharges to the state of Nebraska. The overcharges ranged as high as 407% of the agreed-upon contract price. For example, scissors, which were supposed to be billed at \$1.46 each, were charged at \$3.48 on Nebraska's June 2007 bill. States such as California, Georgia, and North Carolina, reportedly have encountered similar problems with Office Depot supply contracts.

Kansas has a State-wide contract for office supplies with Corporate Express, which was acquired in July 2008 by Staples, the world's largest office products company. A review of records from the State's accounting system shows that State agencies have spent nearly \$8 million with Corporate Express in each of the past two fiscal years.

The experiences of Nebraska and other states raise questions about whether Kansas agencies are receiving the agreed-upon price when purchasing office supplies.

A performance audit of this topic would answer the following question.

- 1. Is the State's office-supply vendor providing products at the agreed-upon price?** To answer this question, we would identify best practices for monitoring fixed-price contracts. We would interview officials from the Division of Purchases to determine what procedures they have in place to ensure that vendors are providing goods at the prices specified in contracts, and compare those procedures to best practices. We gather information from the Division of Purchases about the contracted prices for goods available under the Statewide office supply contract with Corporate Express. We would review a sample of purchases State agencies have made from Corporate Express and compare the price received to the contract price. If we identify items for which the price paid was not the price shown in the contract, we would follow up with agency officials, the Division of Purchases, and the vendor as needed to find out why.

Estimated time to complete: 4-6 weeks

APPENDIX B

Agency Response

On March 6, 2009, we provided copies of the draft audit report to the Division of Purchases. Its response is included as this Appendix.

The agency generally concurred with the report's findings, conclusions, and recommendations.

March 13, 2009

Ms. Barbara J. Hinton
Legislative Post Auditor
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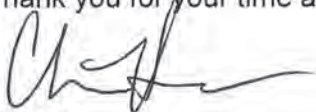
Dear Ms. Hinton:

Thank you for the opportunity to review to the Legislative Post Audit's report entitled "State Contracts: Determining Whether the State's Office-Supply Vendor is Providing Products to State Agencies at Agreed-Upon Prices". We're pleased to present the following official response.

The audit confirms that the efforts to provide State of Kansas agencies with a flexible and cost competitive contract for Office Supplies have been fruitful. While we are pleased that agencies have been able to seek deep discounts on specific purchases, we share the auditors concerns about items that were apparently overcharged.

I appreciate the recommendations of the auditors and expect that the upcoming conversation with the contract provider will be frank and productive and will assist the Division of Purchases in its continuing effort to improve our contracts and provide quality services for our state agency customers.

Thank you for your time and consideration.



Chris Howe
Director of Purchases