

**VENDOR AUDIT – CORPORATE EXPRESS**

**REPORT NO. 06-108 – City**



**CITY OF ALBUQUERQUE  
OFFICE OF INTERNAL AUDIT AND INVESTIGATIONS**

**Vendor Audit – Corporate Express  
Report No. 06-108 – City  
Executive Summary**

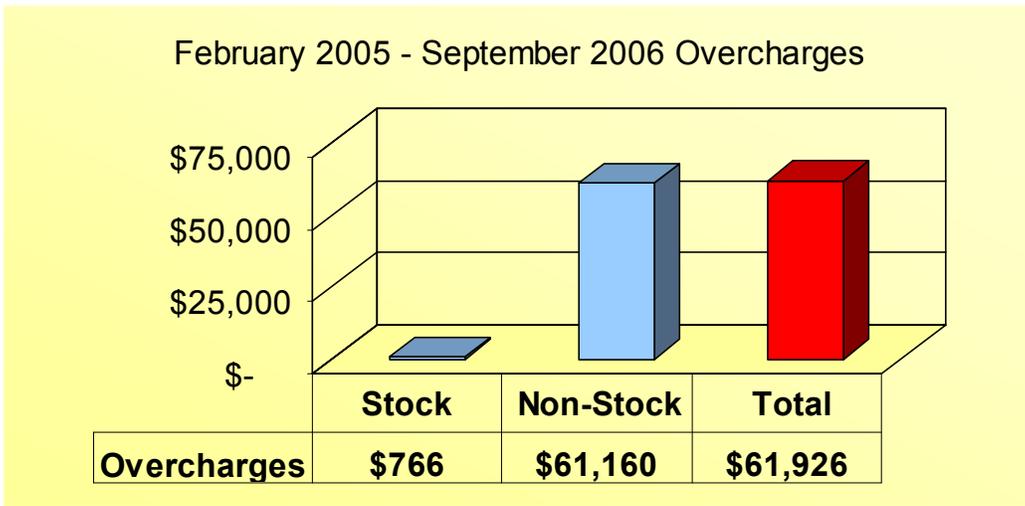
Corporate Express (CE) is the City of Albuquerque’s (City) Just in Time contract (contract) supply vendor. From the inception of the contract on February 1, 2005 through September 30, 2006, the City purchased approximately \$1,999,000 in supplies. The Department of Finance and Administrative Services (DFAS) Internal Services Section, places a 5% surcharge per purchase on each City department as a management fee for the contract.

The contract is broken into two separate categories; stock and non-stock. Stock items include a limited variety of toner, paper and office supplies that are most commonly used by City departments. Non-stock items encompass a majority of all other office supplies, paper and toner. CE charges the City three percent above their cost for non-stock toner and paper and eight percent above cost for all other non-stock items.

The following are the exceptions we noted during our test work. Also included below are our recommendations.

**Objective:** *Is the City being overcharged on supplies purchased through the contract?*

- ❖ CE overcharged the City \$61,926 for purchases made from February 2005 through September 2006.



**Recommendations:**

- ❖ DFAS should ensure receipt of repayment from CE for the overcharges totaling **\$61,926**.
- ❖ DFAS should also ensure that CE complies with all the contract pricing.
- ❖ DFAS should review the monthly stock purchases for accuracy and the non-stock purchases for reasonableness.

**Objective:** *Is CE reporting to the City as required by the contract?*

- ❖ The Quarterly Business Reviews (QBR) are not prepared timely and do not include required information.
- ❖ As of the end of fieldwork the QBR for February through April 2005 had not been completed.

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**Recommendation:**

DFAS should ensure that the QBR's are received timely and provide the required contract information.

**Objective:** *Are City departments completing their duties as required by the contract and City Policies and Procedures?*

- ❖ DFAS did not review temporary substitutions of supply items timely. Therefore, CE permanently changed the City's ordering preference on two items without required written approval.
- ❖ DFAS did not inform City supply purchasers on the availability and potential saving of ordering stock items and verifying the purchase price to monthly invoices as required by the contract.
- ❖ Restricted items noted in the contract are not blocked on E-Way.
- ❖ The Albuquerque Fire Department (AFD) and ABQ Ride do not purchase all of their office supplies using CE.
- ❖ AFD has one supply purchaser that uses another employee's user name and password to log in to E-Way.

**Recommendations:**

- ❖ DFAS should document and track approved substitutions to stock items to ensure ordering preferences are not permanently changed.
- ❖ DFAS should enhance their training of supply purchasers regarding their duties as required by the contract.
- ❖ DFAS should review monthly purchases and make certain that restricted items noted in the contract are properly blocked.
- ❖ AFD and ABQ Ride should purchase their office supplies using the contract with CE.
- ❖ AFD should ensure that each supply purchaser has their own user name and password.

**Objective:** *Are the other significant contract requirements completed?*

- ❖ The stock items display icon on E-Way, CE's online ordering website, misleads the City's supply purchasers.
- ❖ One stock item no longer appears on E-Way.

**Recommendations:**

- ❖ DFAS should ensure the symbol represents only stock items and each stock item is clearly labeled on E-Way.
- ❖ DFAS should verify that all stock items are available on E-Way.

**Management responses are included in the audit report.**



***City of Albuquerque***  
**Office of Internal Audit and Investigations**  
P.O. BOX 1293 ALBUQUERQUE, NEW MEXICO 87103

January 31, 2007

Accountability in Government Oversight Committee  
City of Albuquerque  
Albuquerque, New Mexico

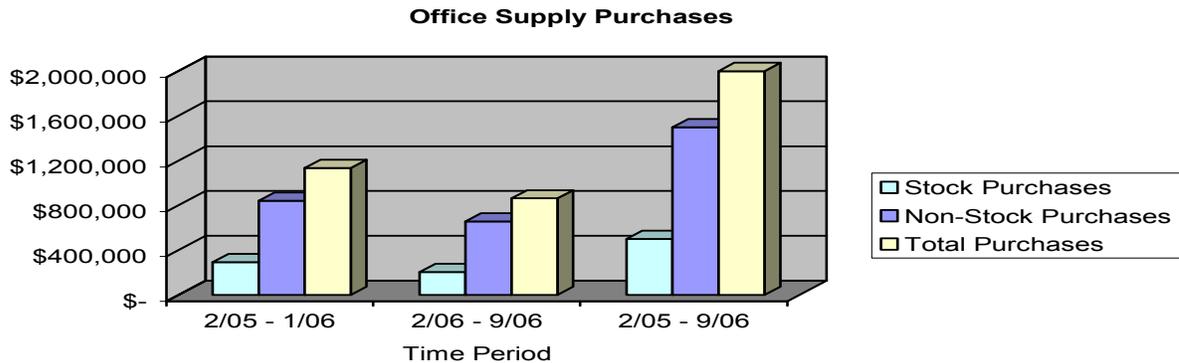
Audit: Vendor Audit – Corporate Express  
06-108 – City

**FINAL**

INTRODUCTION

Corporate Express (CE) is the City of Albuquerque's (City) Just in Time contract (contract) supply vendor. During the first year of the contract, February 1, 2005 through January 31, 2006, the City purchased approximately \$1,136,000 in supplies. During the second contract year; February through September 2006, the City purchased approximately \$863,000. The Department of Finance and Administrative Services (DFAS) Internal Services Section, places a 5% surcharge per purchase on each City department as a management fee for the contract.

The contract is broken into two separate categories; stock and non-stock. Stock purchases include 365 supply items for which the City pays a set price that is negotiated at the beginning of each contract year. Stock items include a limited variety of toner, paper and office supplies that are most commonly used by City departments. Non-stock items encompass a majority of all other office supplies, paper and toner. CE charges the City three percent above cost for non-stock toner and paper and eight percent above cost for all other non-stock items.



The Office of Internal Audit and Investigation (OIAI) determined CE overcharged the City **\$61,926** from February 2005 through September 2006.

### AUDIT OBJECTIVES

The Objectives of the CE vendor audit were to determine:

- Is the City being overcharged on supplies purchased through the contract?
- Is CE reporting to the City as required by the contract?
- Are City departments completing their duties as required by the contract and City policies and procedures?
- Are the other significant contract requirements completed?

### SCOPE

Our audit did not include an examination of all the functions, transactions and activities related to the management of the City's contract with CE. Our scope for this audit was for the period February 2005 through September 2006. We reviewed 41 of our 63 invoice statistical sample to test compliance of non-stock purchases. We tested a statistical sample of 63 stock purchases for compliance with the contract.

This report reflects our examination of activities through the completion date of our fieldwork, November 8, 2006, and it does not reflect events after that date.

The audit was conducted in accordance with Government Auditing Standards, except Standard 3.49, requiring an external quality control review.

## METHODOLOGY

During this audit we performed testing on a statistical sample of City purchases to determine if the correct markup was charged. We reviewed documents for compliance with significant contract terms regarding both the City and CE. We also interviewed CE personnel, DFAS Purchasing Division personnel and other City employees who were deemed necessary.

## INTRODUCTORY STATEMENT FROM DFAS

*“This audit has provided additional value in preparing the Internal Services Section to manage this contract into the future. We thank the Office of Internal Audit and Investigations for their cooperation and assistance.”*

## FINDINGS

The following findings concern areas that we believe would be improved by the implementation of the related recommendations.

1. DFAS SHOULD ENSURE RECEIPT OF REPAYMENT FROM CE FOR OVERCHARGES TOTALING \$61,926 AND REVIEW PURCHASES FOR COMPLIANCE WITH THE CONTRACT.

During our non-stock purchases test work we requested 63 invoices. CE provided us with 41 of the requested invoices. Of the remaining 22 invoices, seven invoices were never provided to us and 15 invoices related to their private label manufacturer. CE stated that this manufacturer uploads their cost directly into CE’s inventory system; therefore, no invoices are generated.

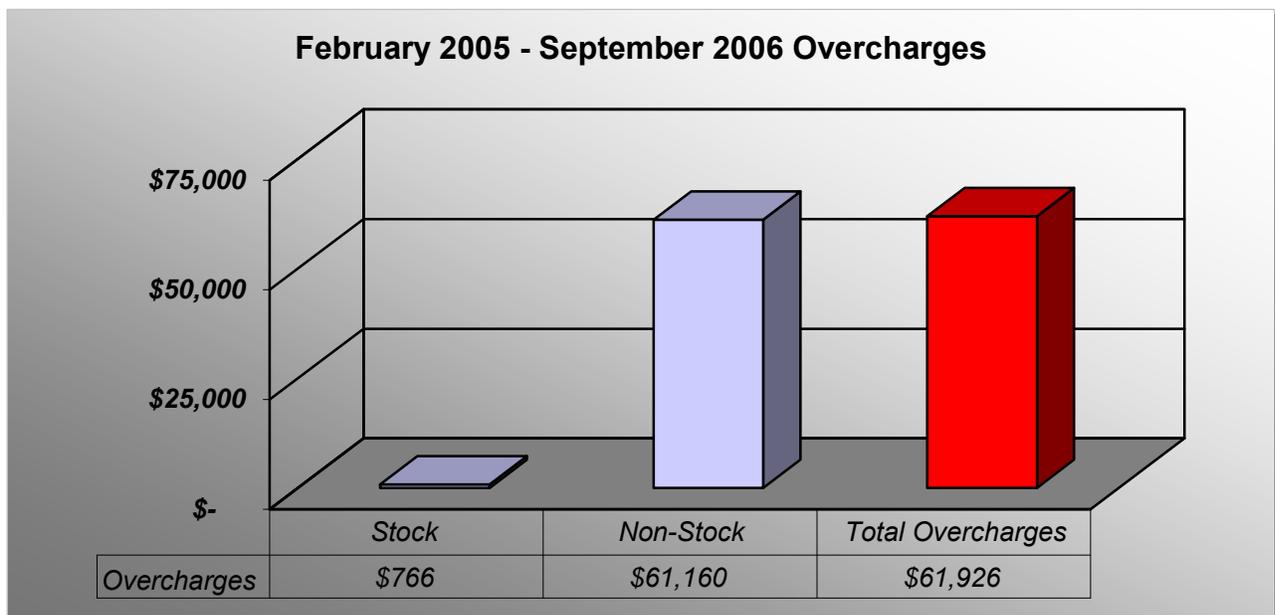
Of the 41 invoices tested, we noted the City was **overcharged** on 37 purchases and **undercharged** on four purchases. We determined that the majority of overcharges pertained to CE’s volume discount received from their wholesaler which was not passed along to the City. CE did not consider their volume discount cost as the cost for the City’s markup calculation.

The contract states, “Cost is defined as the per item price paid by the contractor to their supplier for any and all non-stocked supplied goods, with no additional consideration applied to cost whatsoever...” Based on our statistical sample we determined that CE had overcharged the City **4.0831%** on all non-stock purchases for the contract year of February 2005 through January 2006.

During our stock purchases test work we noted two of 63 items where the unit price paid by the City was **greater** than the contract price. Based on our statistical sample we determined that CE overcharged the City **0.1528%** on all stock purchases for the same time period. CE could not explain the overcharge’s that occurred on the two stock items.

The Internal Services Supervisor (ISS) should regularly compare the price paid for stock purchases to the contract and review non-stock purchases for reasonableness. The ISS was unaware this was considered part of the management duties.

We projected the overcharge percentages to the first contract year's purchases for stock and non-stock and determined that CE had over billed the City a total of **\$34,790**. At the request of DFAS and CE we projected these same percentages to the second contract year's purchases through September 2006 and determined that the total overcharge from February 2005 through September 2006 was **\$61,926**.



RECOMMENDATION

DFAS should ensure receipt of repayment from CE for the overcharges totaling **\$61,926**. DFAS should also verify that CE complies with all the contract pricing. DFAS should review the monthly stock purchases for accuracy and the non-stock purchases for reasonableness.

RESPONSE FROM DFAS

*“Purchasing concurs with the recommendation and has requested payment from the City Contract Representative for Corporate Express (CE). The representative has assured Purchasing that delivery of the repayment to the City will be complete by January 26, 2007.*”

***“DFAS warehouse personnel have already begun review of monthly stock purchases from the monthly reports provided by CE and have had discussions with CE regarding any concerns.”***

2. DFAS SHOULD ENSURE THE QUARTERLY BUSINESS REVIEWS (QBR) ARE RECEIVED TIMELY AND PROVIDE THE REQUIRED CONTRACT INFORMATION.

Only one QBR had been prepared and presented to the City when we began the audit.

The contract states, “The Contract Coordinator shall review City ‘stock’ usage and recommend deletions and revisions to the City ‘stock’ items list in writing.”

CE agreed to the terms above and added, “As part of our Quarterly Business Review (QBR) process, Corporate Express will make recommendations for additions, deletions and revisions to the City’s ‘stock’ items. Our QBR includes much more additional information that will be valuable to the City.”

After a discussion with CE near the beginning of the audit; they prepared and presented to the City the QBR for July 2005 through March 2006. The eight month report was delivered to the ISS on June 6, 2006. CE stated that they did not realize the QBR’s had not been prepared. As of the end of fieldwork the QBR for February through April 2005 had not been completed.

The reports delivered to the City made no recommendations for additions, deletions and revisions. CE was unaware of this requirement in the contract.

The ISS did not realize he should have been requesting and reviewing the QBR’s as part of the management of the contract. The information required in the QBR could have provided an opportunity to save the City money.

RECOMMENDATION

DFAS should ensure that the QBR’s are received timely and provide the required contract information.

RESPONSE FROM DFAS

***“Purchasing concurs with the recommendation. Quarterly business reviews (QBRs) are now being conducted as required by contract and all reviews to date have been compiled. The Internal Services Section will continue this as required for the duration of the contract.”***

3. DFAS SHOULD DOCUMENT AND TRACK APPROVED SUBSTITUTIONS TO STOCK ITEMS TO ENSURE ORDERING PREFERENCES ARE NOT PERMANENTLY CHANGED.

In late 2005 CE was unable to obtain the brand name stock items for a desk pad calendar and a desk calendar refill. The ISS allowed CE to substitute the stock calendars with CE's private label brand until the next calendar year began.

At that time, CE changed the City's ordering preference for these two items to permanently order the private label calendar and refills. As required by the contract all revisions to stock items shall become effective only after the City receives a written request from CE and it is accepted by the Purchasing Division. Approval was not obtained.

CE stated that they began a campaign in late 2005 to sell their recently added private label items as a less expensive alternative to the brand name supplies. The ISS did not realize that CE had changed the City's ordering preference on these two items and did not follow up to ensure the brand name items were available during the next calendar year. Consequently, the City was paying the contract price for a non-equivalent brand during the new calendar year.

RECOMMENDATION

DFAS should document and track approved substitutions to stock items to ensure ordering preferences are not permanently changed.

RESPONSE FROM DFAS

***“Purchasing concurs with the recommendation. Monthly reports are now being used to check compliance on a test basis that price, manufacturer and part number are as bid and as required by contract. These will also be discussed in QBRs.”***

4. DFAS SHOULD ENSURE THE SYMBOL FOR STOCK ITEMS ON E-WAY IS ACCURATE AND EACH STOCK ITEM IS AVAILABLE.

During our test work we noted that the display icon for stock items currently represents either a stock item or a best-value alternative, which is a CE private label item. In addition we noted that the desk pad calendar mentioned in Finding 3 no longer appears as a stock item on E-Way.

CE stated in the contract documents that E-Way, their online ordering site, would feature a complete online catalog with applicable product listings display icons indicating contract stock items.

CE indicated that the change in the icon meaning was a good way to let City supply purchasers know that there were best-value alternatives for stock items.

Furthermore, the ISS did not periodically review this symbol to verify that it was for stock items only. Consequently, CE is misleading the City's supply purchasers.

#### RECOMMENDATION

DFAS should ensure the symbol represents only stock items and each stock item is clearly labeled on E-Way. DFAS should also verify that all stock items are available on E-Way.

#### RESPONSE FROM DFAS

***“Purchasing concurs with the recommendation. Warehouse personnel will check the web site periodically for compliance and record any discrepancies. Such discrepancies will, if found in the future, be addressed with CE for correction and to be brought into compliance. Persistent noncompliance could result in cancellation of the contract.”***

#### 5. DFAS SHOULD ENHANCE THEIR TRAINING OF SUPPLY PURCHASERS.

We surveyed nine City departments for verification of their compliance with the contract. Four of the nine departments that completed our questionnaire were unaware of the City's stock catalog. This catalog contains all 365 stock items and the contract price. The ISS did not ensure the supply purchasers were informed regarding the use and availability of the stock catalog.

The contract states, “Upon receipt of the contractor generated invoice and summary listing; the City will promptly review that list for accuracy and notify the contractor of any discrepancies. Upon satisfactory reconciliation, the City will submit amount for payment.”

Five departments were not verifying the detailed summary invoice. Adequate training had not been provided to the City departments regarding the process required by the contract to verify the price of items purchased to the detailed monthly invoice.

The ISS did not know these were considered part of managing the contract. The City may have avoided some of the overcharges discovered during the audit if departments had been reviewing the invoices and training had been provided.

#### RECOMMENDATION

DFAS should enhance their training of supply purchasers regarding their duties as required by the contract.

RESPONSE FROM DFAS

*“Purchasing concurs with the recommendation, but notes an extenuating circumstance with respect to this particular contract. Reconciliation is a basic departmental responsibility for these expenditures and the failure of individual departments to do so is not easily or readily identified by warehouse personnel.*

*“There was a transition in staffing, and a period of vacancy, at the warehouse during the period between when the RFP for this contract was issued in November 2004 and the contract was awarded in January 2005. The contract includes a requirement that the vendor provide user training on their web based ordering system. Purchasing representatives attended one of these many vendor-conducted training sessions to ensure that the reconciliation process was included in the training. However, while the specific contract assignment and responsibilities is not overbearingly complex, it has taken some time for the new warehouse manager to become familiar with this contract. In the future, Purchasing will assure that as new supply purchasers are named, they will be trained as required in City provided training sessions in order to better assure quality training and thus enhance the training of supply purchasers.”*

6. DFAS SHOULD MAKE CERTAIN RESTRICTED ITEMS NOTED IN THE CONTRACT ARE BLOCKED ON E-WAY.

During our test work we noted 60 of 679 purchases totaling \$12,604 that should not have been allowed and billed to the City under this contract. CE acknowledged that a majority of the items noted could not be blocked on E-Way.

The contract requires that vendors have the ability to block restricted items from being ordered through any contract awarded as a result of the Just in Time RFP.

DFAS did not review the monthly purchases which resulted in the restricted items purchased and billed to the City incorrectly. As a result, the City paid for items under the contract that should have been billed using alternative methods.

RECOMMENDATION

DFAS should review monthly purchases and make certain that restricted items noted in the contract are blocked on E-Way.

RESPONSE FROM DFAS

***“Purchasing concurs with the recommendation. During monthly report reviews, the Internal Services Section will check for items sold that should be blocked. It is a requirement of the contract that the vendor has the ability to block items from ordering and this had been demonstrated on many occasions in the Corporate Express E-Way system. In the event that some items slip through, it will be discovered in the monthly reviews, discussed with the vendor and documented for subsequent occurrence which would be regarded as a contract violation.”***

7. THE ALBUQUERQUE FIRE DEPARTMENT AND ABQ RIDE SHOULD PURCHASE OFFICE SUPPLIES USING THE CONTRACT WITH CE.

The City’s Purchasing Card (P-Card) policy states that departments can not use the P-Card to purchase any items currently on City Contract.

During our questionnaire we noted the Albuquerque Fire Department (AFD) and ABQ Ride departments are purchasing supplies using their P-Cards. The departments believed they could get the supplies cheaper through other sources. Both departments are in violation of the P-Card policy. The cost may appear to be lower at local stores however; the departments do not consider the cost of the employee’s time to comparison shop and purchase the item.

RECOMMENDATION

AFD and ABQ Ride should purchase their office supplies using the contract with CE.

RESPONSE FROM AFD

***“Fire agrees with the recommendation. The P-card holder has been reminded that use of the City contract with CE is required. A follow-up training will be scheduled before the end of the fiscal year with all P-card holders in AFD to ensure that they also comply with this requirement.”***

RESPONSE FROM ABQ RIDE

***“Transit agrees with the recommendation. The P-card holder has been reminded that use of the City contract with CE is required. A follow-up training will be scheduled before the end of the fiscal year with all P-card holders in Transit to ensure that they also comply with this requirement.”***

8. AFD SHOULD ENSURE THAT EACH SUPPLY PURCHASER HAS THEIR OWN USER NAME AND PASSWORD TO E-WAY.

The City's IT User ID Security Policy states that user IDs and passwords shall not be shared among users.

During our questionnaire we noted that one purchaser for AFD was using another employee's login to access CE's E-Way system. AFD stated that they had not yet set up the supply purchaser's login. We noted that this employee had been purchasing supplies for several months. Employees who are not authorized by the City could make improper office supply purchases.

RECOMMENDATION

AFD should ensure that each supply purchaser has their own user name and password to E-Way.

RESPONSE FROM AFD

***“Fire agrees with the recommendation. The supply purchaser now has his own user name and password. In addition, a follow-up training will be scheduled before the end of the fiscal year with all AFD supply purchasers to remind them not to share their user names and passwords.”***

CONCLUSION

DFAS should ensure receipt of repayment from CE for the overcharges from February 2005 through September 2006. DFAS should also implement a system to verify that CE properly charges the City.

Management of the contract should be more proactive to ensure that the vendor complies with the contract. For example, DFAS should enhance the training classes for supply purchasers. The ISS should request the QBR's, if not delivered quarterly, and review them timely to take advantage of the information provided to the City.

DFAS should also remind the departments of current P-Card policies to help prevent further purchasing non-compliance.

AFD should ensure individuals who purchase office supplies have their own user names and passwords.

We appreciate the cooperation of the Departments of Finance and Administrative Services' staff during the audit.

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Principal Auditor

**REVIEWED AND APPROVED:**

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Carmen Kavelman, CPA, CISA, CGAP  
Director  
Office of Internal Audit & Investigations

**APPROVED FOR PUBLICATION:**

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Chairperson, Accountability in Government  
Oversight Committee