



February 27, 2019

Performance Audit

Parts Plus of New Mexico, Inc.

Citywide Contract Audit – City Report

Report No. 18-105

PARTS  PLUS



**CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT**

PERFORMANCE AUDIT REPORT
PARTS PLUS OF NEW MEXICO, INC.
CITY REPORT
REPORT NO. 18-105

<u>TABLE OF CONTENTS</u>	<u>PAGE NO.</u>
Executive Summary	i
Introduction	1
Findings:	
1. The CAO Should Ensure User Departments Verify the Accuracy of Contractual Pricing Compliance of Invoices Prior to Ordering Parts and Authorizing Payment.	3
2. The CAO Should Remind User Department Staff not to Use Open Contract Purchase Orders to Fulfill Off-Contract Automotive Part Purchases.	12
3. The Department of Finance & Administrative Services Should Ensure Sufficient Procurement Contracts are Offered for Frequently Purchased Automotive Parts.	13
4. The Department of Finance & Administrative Services Should Ensure Invoices and Credits are Processed Timely.	15
Conclusion	17
Appendix A – Objectives, Scope, Limitations and Methodology	19
Appendix B – Summary of Contract Parts Sample Unfavorable (Favorable) Discount Variance	21

The purpose of this audit was to review and report on Parts Plus of New Mexico, Inc.'s contract and billing compliance for the period July 1, 2016 through June 30, 2018.

Recommendations



The CAO should:

- Ensure user departments verify that future pricing and discount rates are accurate and in conformance with the contract.
- Request that the vendor reimburse the City for the calculated overcharge of \$17,631 and work with the vendor to determine if any of the undercharges of \$17,607 may be considered for an offset against the overcharges.
- Ensure the manufacturer list price is being used as the base price for establishing the discount rates.
- Ensure department staff are reminded and trained to ensure open contract purchase orders are not used to purchase off-contract automotive parts.
- Amend the City's contract to include clarification of availability and use of manufacturer's retail price and to define the terms "Contractor's Cost List" and "Actual Net Cost".

DFAS-Purchasing should:

- Ensure there are sufficient contracts for frequently purchased automotive parts.

DFAS-Accounts Payable should:

- Work with City departments and Parts Plus to ensure outstanding invoices and credits are identified and resolved in a timely manner.

Executive Summary- City Report

The Office of Internal Audit (OIA) conducted a citywide vendor audit of Parts Plus of New Mexico, Inc. (Parts Plus). Vendor audits are included on OIA's fiscal year (FY) 2018 audit plan and Parts Plus was selected. The audit period addressed was July 1, 2016 through June 30, 2018.

The audit determined that City departments are not verifying the accuracy of contractual pricing compliance of invoices prior to placing orders or authorizing payment. The following contractual billing issues were identified during the audit:

- Incorrect discount rates charged for parts; and
- The vendor is not using manufacturer retail prices as the base prices for applying established discount rates.

Due to the high non-compliance rate of the sample, OIA performed several analyses that identified overcharges to the City of \$17,631 and potential undercharges of \$17,607.

In addition, several City procurement and payment process issues were identified during the audit and include the following:

- Department staff are using open contract purchase orders to fulfill off-contract automotive part orders;
- Many frequently purchased automotive parts from Parts Plus are not being offered on a procurement contract; and
- Department of Finance and Administrative Services (DFAS) - Accounts Payable is not ensuring invoices are being paid/credited when received.

As of Parts Plus statement dated September 6, 2018, there were outstanding unpaid invoices totaling \$140,604 and unapplied credits totaling \$17,630.

The CAO concurred with the findings and will implement the recommendations.



City of Albuquerque

Office of Internal Audit

February 27, 2019

Accountability in Government Oversight Committee
P.O. Box 1293
Albuquerque, New Mexico 87103

Audit: Vendor Audit - Citywide
Parts Plus of New Mexico, Inc.
Audit No. 18-105

FINAL – City Report

INTRODUCTION

The Office of Internal Audit (OIA) performed a citywide vendor audit of Parts Plus of New Mexico, Inc. (Parts Plus). Vendor audits were included in OIA’s fiscal year (FY) 2018 audit plan and Parts Plus was selected. Information pertaining to the audit objectives, scope, limitations and methodology can be found in **Appendix A**.

Parts Plus was founded in 1981 and is a wholesale distributor of automotive and truck parts. Parts Plus is locally owned and services New Mexico and Southern Colorado. The Parts Plus website states that it is “dedicated to bringing the fastest delivery of the highest quality parts to the professionals who service your vehicle.”

The City of Albuquerque (City) contracts with Parts Plus to provide automotive parts and tools for numerous departments that perform vehicle maintenance. Parts Plus has been a City vendor since 2011. The current contract began on October 25, 2016 and extends through June 30, 2020. In order to expedite the procurement process, the City used the State of New Mexico’s price agreement No. 60-000-16-00050BK to contract with Parts Plus.

The population for the two-year audit period consisted of 5,038 invoices totaling \$871,612. For the

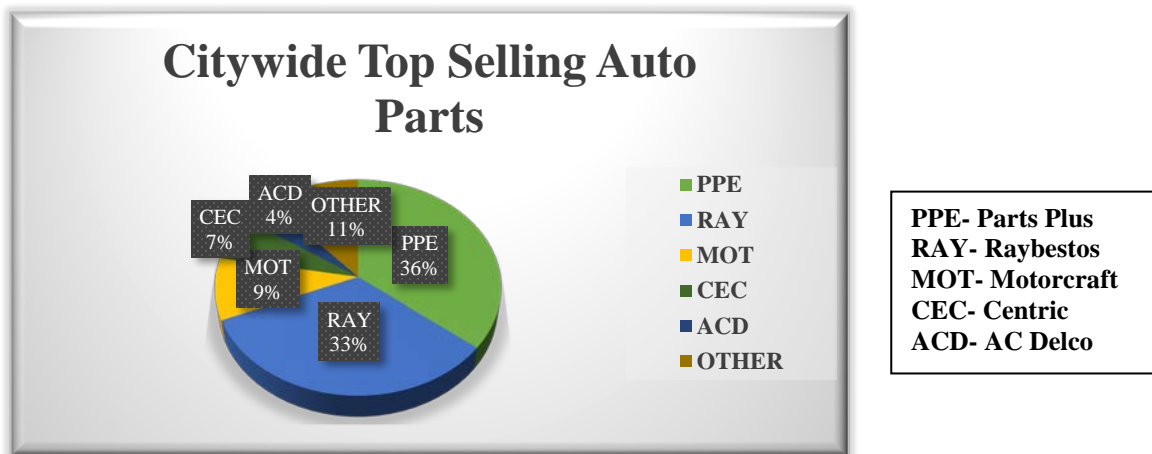
period under contract, the City purchased \$547,930 of on contract parts and \$195,766 of parts that were not included in the City contract. From 07/01/16 to 10/24/16, the City did not have a contract in place, but purchased \$127,916 in parts from Parts Plus. Three City departments represented the population and are illustrated in the table below.

City Department Use by Purchase Type for FY16 –FY18

Department	Part Purchases Prior to 10/25/16 (no contract)	Part Purchases on Contract (10/25/16-06/30/18)	Part Purchases Not Established in Contract (10/25/16-06/30/18)	Department Total
DMD	-	\$2,087	\$5,789	\$7,876
Transit	\$51,919	\$183,648	\$167,302	\$402,869
DFAS – Fleet	\$75,997	\$362,195	\$22,675	\$460,867
Grand Total	\$127,916	\$547,930	\$195,766	\$871,612

Source: *Parts Plus*

The below chart illustrates the top selling automotive parts sold to the City by Parts Plus during the audit period.



Source: *Parts Plus*

FINDINGS

The following findings address areas that OIA believes could be improved by the implementation of the related recommendations.

1. THE CAO SHOULD ENSURE USER DEPARTMENTS VERIFY THE ACCURACY OF CONTRACTUAL PRICING COMPLIANCE OF INVOICES PRIOR TO ORDERING PARTS AND AUTHORIZING PAYMENT.

City departments are not sufficiently verifying the accuracy of contractual pricing compliance of invoices prior to placing orders or authorizing payment. The following contractual billing issues were identified during the audit:

- Incorrect discount rates charged for parts; and
- The vendor is not using manufacturer retail prices as the base prices for applying established discount rates.

Eighty percent (80%) of billing reviewed, contained incorrect part discount rates. From a statistical random sample of 40 parts, 32 parts contained inaccurate discount rates. Thirteen parts contained unfavorable discounts resulting in overcharges and nineteen parts contained favorable discounts resulting in undercharges.

Due to the high non-compliance rate of the sample, an analysis was performed to evaluate the discount variances for all the parts purchased under the current contract. The analysis identified gross favorable discounts to the City of \$25,214. Parts Plus stated that \$13,239 was intentionally discounted to remain competitive with other vendors and the remaining \$11,975 was due to improperly setup discount rates in the vendor's system. Discount rates are inserted and updated by the President of Parts Plus and no other Parts Plus personnel can adjust discount rates.

In addition, manufacturer retail prices are not being used to establish the price from which discounts are applied to. The contract states, "In cases where the manufacturer's current retail price or contractor's cost list is non-existent, the user agency will be billed at the actual net cost to the contractor for such items." Parts Plus uses its own "competitively" derived list price and does not use the manufacturer's current retail list price as the starting price to be discounted. To demonstrate that Parts Plus's competitively derived list price was consistently established for all customers, the President of Parts plus provided OIA with three examples where the list price of a part purchased by the City was the same as other customers with a purchase date in close proximity to the City's purchase date.

OIA obtained the manufacture retail prices for a sample of the most used Raybestos (RAY) parts (18) to determine if there was a billing difference between Parts Plus's competitive prices and the manufacture's retail prices. The analysis determined that the City paid approximately

\$14,778 more for the sampled parts because Parts Plus used its competitive prices rather than the manufacturer's retail prices as the basis from which discounts are applied.

Department staff stated that they do not review the procurement contract (which indicates discount rates) prior to placing orders for automotive parts and this is a training issue that will need to be addressed.

The following subsections provide detailed information regarding the above billing issues.

Incorrect Discount Rates

Thirty-two (32) of the forty (40) invoice parts selected for review contained incorrect discount rates, as shown on the following table. A detailed summary of the variances can be found at **Appendix B**.

Discount Rate Variance Summary

Variance Type	Sample	% of Sample	Total
Unfavorable	13	32.5%	\$285.10
Favorable	19	47.5%	(396.75)
Accurate-within rounding	8	20%	0.07
	40	100%	\$(111.58)

Source: Parts Plus

Based on the review of invoices, there were 13 unfavorable occurrences where the vendor did not provide the contractually agreed upon discount with certain part types. For example, Part Type "RAYSP931PPH", the contract discount rate is 65 percent for all Raybestos (RAY) parts. With "list price" of \$102.52, the discount should be \$66.64 and selling price of \$35.88. Parts Plus applied an approximately 61 percent discount and charged \$39.93 per "RAYSP931PPH" part rather than \$35.88 per part (an overcharge of \$4.05 per part) as shown in the graphic to the right.

Additionally, there were 19 occurrences where the vendor provided a more favorable discount on certain part types. For example, Part Type "PPE65P", the contract discount rate is 55

QTY	B/O	ITEM NO.	DESCRIPTION	LIST	UNIT	CORE	EXTENDED	TX	
30	0	000032 RAYSP931PPH	POLICE PADS	102.52			39.93	1,197.90 E	
RECD BY: [Signature]				SALE AMOUNT	TAX%	TAX	EXEMPT	CORE	TOTAL SALE
				1,197.90	0.7500		1,197.90	0.00	1,197.90

Handwritten notes: "000032", "Stock order", "Part Plus List Price", "Selling Price", "RH: DR0003924".

Source: Parts Plus Invoice #1-735906

QTY	B/O	ITEM NO.	DESCRIPTION	LIST	UNIT	CORE	EXTENDED	TX	
			NO PALLETS AFTER 3:00PM						
2	0	000903 PPE905	Parts Plus - 12 mo F Transferred from Whse: PARTS PLUS LA JARA on 0190055 1 YEAR WARRANTY NO PRORATE	196.11			167.78	E	
2	0	RAY780457	Disc Brake Rotor Onl	82.98			58.08	E	
15	0	RAYSP32PFF	POLICE PADS	101.72			591.90	E	
1	0	RAYEHT1037H	PREMIUM BRAKE PAD	85.90			30.07	E	
10	0	RAY680110P	ATD POLICE ROTORS	211.32			739.60	E	
5	0	PPE65P	Parts Plus-36 mo Fre	214.11			441.90	E	
RECD BY: [Signature]				SALE AMOUNT	TAX%	TAX	EXEMPT	CORE	TOTAL SALE
									* Continued *

percent for Parts Plus (PPE) parts. With “list price” of \$214.11, the discount should be \$117.76 and selling price of \$96.35. Parts Plus provided a discount rate of approximately 59 percent and charged \$88.38 per “PPE65P” part rather than \$96.35 per part, as shown in the graphic to the left.

Source: Parts Plus Invoice #1-708311

Administrative Instruction NO: 3-4 VENDOR CITY AND RELATIONS AND RESPONSIBILITIES RELATING TO VENDOR PERFORMANCE

2. End-User/Department Responsibilities Relating to Vendor Performance, (E.) Monitor the Vendor’s progress and performance to ensure that goods and services conform to the contractual requirements. (F.) Conduct a thorough inspection of all goods purchased to ensure that they are in compliance with contractual requirements. The receiving End-User Department shall also inspect and validate that the services being performed on behalf of the City by the Vendor have been performed and have been completed in accordance with contractual requirements. (G.) Request change orders and or amendments to the contract terms with the required approvals when necessary. An End-User may not verbally authorize the Vendor to begin work on a change before the formal process is fully authorized, documented and approved.

Due to the high non-compliance rate of the sample, an analysis was performed to evaluate the discount variances for all the parts purchased under the current contract. The discount analysis was prepared, as follows:

- OIA multiplied the vendor’s list price by the contractual discount rate and subtracted the amount paid by the City for each part to derive the gross discount variance;
- OIA then provided the gross discount variance to the vendor for review and comment. The vendor noted that some discount rates were applied in error (internal rate setup error) and other discounts were increased to offer more competitive pricing to the City; and
- The remaining net discount variance which the vendor has identified as resulting from internal discount setup errors includes both favorable pricing (i.e. higher discount percentages provided to the City than required under the contract resulting in undercharges) and unfavorable pricing (i.e. less than the required contractual discount

percentage provided to the City resulting in overcharges).

DISCOUNT ANALYSIS ON ALL PARTS

Manufacturer	Gross Discount Variance	Less Competitive Discounts Identified by Vendor	Net Discount Variance
Parts Plus (PPE48P)	\$ (2,245)	-	\$ (2,245)
Parts Plus (PPE65P)	(3,895)	-	(3,895)
Parts Plus (Other)	(11,800)	\$(11,800)	-
Motorcraft (MOT)	(11,467)	-	(11,467)
Amalie/Valvoline (PQS)	(1,439)	(1,439)	-
Raybestos (18 top RAY)	2,779	-	2,779
Raybestos (other RAY)	622	-	622
Gates (GAT)	1,993	-	1,993
Other Parts	238	-	238
Total	\$(25,214)	\$(13,239)	\$(11,975)

Source: *Parts Plus*

Net unfavorable discount total - overcharge	\$ 5,632
Net favorable discount total - undercharge	<u>(17,607)</u>
Net Favorable discount variance	\$ (11,975)

During the audit, the vendor and the City provided OIA with various statements relative to discounting:

- In Parts Plus’s Self-Assessment questionnaire (SAQ) dated 07/05/2018, the vendor stated “While discounts off list vary by manufacturers and list is determined by a competitive markup over our cost, we charge the City the most favored nation of pricing that we offer to any of our customers. We are held accountable to aggressive pricing because the City parts department has access to other supplier's pricing on line and have assured me that we indeed offer the best price for the brand quality that they require. Sometimes when competitive suppliers have changed a price to be lower than ours on a particular part, we are immediately notified so that we have an opportunity to lower our pricing as well.”
- In Parts Plus’s Self-Assessment questionnaire (SAQ) dated 07/05/2018, the President of Parts Plus stated “The City has a specific discount matrix set up in our system that never changes. It is by manufacturer and is always set correctly. Our parts pros and salesman do not have access to change it. It can only be changed by me the administrator.”
- In a meeting with the City’s Fleet Management on 07/10/2018, Fleet Management stated that they would purchase directly from the manufacturer or elsewhere, if the price was not competitive.
- On 09/24/18, in response to the above discount variances, the President of Parts Plus stated that part of the variance is due to an error in discount rate setup and part is for competitive reasons.

- In an email on 11/7/2018, the President of Parts Plus requested that OIA consider Parts Plus's cost data that was provided in support of the audit sample. Although OIA was provided certain cost data, the purpose of OIA's sample testing was not to determine the reasonableness of the gross profit earned by the vendor but to verify pricing and discount compliance. The cost and gross profit data with respect to part discount errors identified by the vendor were provided for two PPE65P purchases with a gross profit markup over cost of 34 percent and 35 percent, three PPE48P purchases with a gross profit markup over cost of 8 percent, 8 percent and 14 percent and four purchases with MOT descriptions with a gross profit over cost of 7 percent, 9 percent, 9 percent and 9 percent.

The statements above provided during the audit demonstrate that the vendor commonly offers deeper discounts to the City and the City seeks competitive bids from vendors to ensure the City gets a fair price on parts. The contract doesn't prohibit the vendor from offering greater discounts to be more competitive or the City from buying parts from other vendors. OIA cannot conclude if the favorable deeper discount variances were due to vendor errors or due to the vendor competitively pricing parts to ensure that the City would buy parts from the vendor. Nor can OIA conclude that the City would have purchased parts from Parts Plus at the time of the alleged discount errors had the price offered to the City at the time of sale been higher.

Due to the issues identified above the unfavorable (overcharge) of \$5,632 will be considered with the below manufacture list price analysis. However, the City should work with Parts Plus to determine if additional documentation or support can be provided to determine if the favorable variance of \$17,607 identified as errors may be considered as an offset against the overcharges.

Manufacturer Current Retail List Price is Not Being Used

Parts Plus is not using the manufacturer's current retail list price, in accordance with the City's contract and SPA 60-000-16-00050BK. Parts Plus uses its own "competitively" derived list price, it does not use the manufacturer's current retail list price as starting price to be discounted. Since the vendor used its own derived list price and not the manufacturer list price, an additional manufacturer list price analysis was prepared on 18 frequently purchased Raybestos (RAY) parts. For the audit period, the City paid \$14,778 more than it would have using the vendor's internally derived list price versus the manufacturer's list price and proper application of discount rates.

Administrative Instruction NO: 3-4 VENDOR CITY AND RELATIONS AND RESPONSIBILITIES RELATING TO VENDOR PERFORMANCE

- 3. End-User/Department Responsibilities Relating to Vendor Performance, (E.) Monitor the Vendor's progress and performance to ensure that goods and services conform to the contractual requirements. (F.) Conduct a thorough inspection of all goods purchased to ensure that they are in compliance with contractual requirements.*

The receiving End-User Department shall also inspect and validate that the services being performed on behalf of the City by the Vendor have been performed and have been completed in accordance with contractual requirements. (G.) Request change orders and or amendments to the contract terms with the required approvals when necessary. An End-User may not verbally authorize the Vendor to begin work on a change before the formal process is fully authorized, documented and approved.

As stated in the scope of work section of **SPA 60-000-16-00050BK**, "Parts and supplies will be billed at the discount proposed by the offeror. Cost for parts and supplies will be itemized separately on each invoice and will indicate list price minus discount offered. In cases where the **manufacturer's current retail price** or **contractor's cost list** is non-existent, the user agency will be billed at the **actual net cost** to the contractor for such items." [Emphasis added]

On October 1, 2018, OIA confirmed with the NM State General Services Department (GSD) that SPA 60-000-16-00050BK was written with the intention of taking the discount off of the manufacturer's list price and Parts Plus did not use the manufacture list price, even though it may be available if requested from manufactures.

The contract did not contain definitions of the "contractor's cost list" or "actual net cost" and OIA was unable to find the definition of these cost descriptions through internet searches. Consequently, OIA did not perform additional price analysis relative to these pricing terms. The following similar price descriptions were noted:

Definition of **list price**: the basic price of an item as published in a catalog, price list, or advertisement before any discounts are taken.

<https://www.merriam-webster.com/dictionary/list%20price>

Definition of **at cost price**: for the amount of money that was needed to make or get something: at an amount that yields no profit.

<https://www.merriam-webster.com/dictionary/cost%20price>

Net Price is the final price after deducting all discounts and rebates.

<http://www.businessdictionary.com/definition/net-price.html>

The President of Parts Plus stated, "The manufacturer list price being an obsolete practice in the parts industry for the past decade and they do not use manufacture list price in determining what they charge the City. Parts Plus uses 'list price' which is determined internally by Parts Plus using what they perceive as fair market and what the owner thinks would be a competitive amount to charge the consumer."

On September 12, 2018, the President of Parts Plus notified OIA that he could obtain the manufacturer list price from his suppliers and provided OIA with the information. The information provided was pricing data that was subsequent to the audit period and may not

have been effective for the audit period. OIA attempted to obtain the manufacturer list price from two distributors for two frequently purchased parts, such as Raybestos (RAY) and Centric (CEC) parts. OIA confirmed the Raybestos manufacturer list prices for our audit period, however, the Centric Parts distributor noted they only maintain a “jobber price” and were unable to confirm manufacturer list price.

Since Parts Plus was not obtaining or using the manufacture list price, OIA used the confirmed manufacturing list prices on 18 frequently purchased Raybestos (RAY) parts to reprice these parts. For the audit period, the City paid \$14,778 more by using Parts Plus’s competitively derived list rates than it would have using the manufacturer’s list price for the 18 parts analyzed. The below table illustrates the over or under payment by part type.

LIST PRICE ANALYSIS ON RAYBESTOS PARTS			
Part Number	Brake Parts (Manufacturer) List Price * Contract Discount	Parts Plus List Price * Contract Discount	Overpaid (Underpaid)
RAY580279P	\$6,232	\$6,495	\$263
RAY580279PER	4,851	5,524	673
RAY580403	3,060	3,452	392
RAY580422P	4,585	4,853	268
RAY580422PER	4,149	4,795	646
RAY680110P	19,653	21,161	1,508
RAY680110PER	21,777	23,996	2,219
RAY680129P	6,752	7,434	682
RAY680129PER	10,965	12,408	1,443
RAY780256P	7,166	7,552	386
RAY780256PER	9,742	11,533	1,791
RAY780395P	3,075	3,584	509
RAY780395PER	15,821	16,118	297
RAYSP1057APPH	2,491	2,990	499
RAYSP1058PPH	2,610	2,958	348
RAYSP1194PPH	2,324	2,538	214
RAYSP931PPH	9,486	11,273	1,787
RAYSP932PPH	4,611	5,464	853
Grand Total	\$139,350	\$154,128	\$14,778

Source: Parts Plus and Brake Parts Inc.

For example, invoice #1-530937 shows a total overcharge of \$430.80 for two different Raybestos part types, “RAY780256PER” and “RAY780395PER”, as detailed below:

Source: Part Plus Invoice #1-530937

- For “**RAY780256PER**” the Parts Plus List Price is \$229.90 and manufacturer list price is \$196.29. Additionally, Parts Plus applied a discount of approximately 55 percent versus 58 percent provided in the contract. For the quantity of 10 parts (less discount), Parts Plus charged \$1,034.60. By using the manufacturer list price and proper discount the change would have been \$824.40. As a result, the City was overcharged \$210.20 for part RAY780256PER.

Example of List Price Analysis, by Invoice Line

Base Price	List Price	Discount	Selling Price	Quantity	Total Cost
Part Plus List	\$229.90	55%	\$103.46	10.00	\$1,034.60
Manufacturer List	\$196.29	58%	\$82.44	10.00	\$824.40

*As of 11/15/16, contract discount rate was 58% overcharge \$ (210.20)

- For “**RAY780395PER**” the Parts Plus List Price is \$284.46 and manufacturer list price is \$252.25. Additionally, Parts Plus applied a discount of approximately 55 percent versus 58 percent provided in the contract. For the quantity of 10 parts (less discount), Parts Plus charged \$1,280.10. By using the manufacture list price and proper discount the charge would have been \$1,059.50. As a result, the City was overcharged \$220.60 for part RAY780395PER.

Example of List Price Analysis, by Invoice Line

Base Price	List Price	Discount	Selling Price	Quantity	Total Cost
Part Plus List	\$284.46	55%	\$128.01	10.00	\$1,280.10
Manufacturer List	\$252.25	58%	\$105.95	10.00	\$1,059.50
				<i>overcharge</i>	\$ (220.60)

**As of 11/15/16, contract discount rate was 58%*

RECOMMENDATIONS

The CAO should:

- Ensure user departments verify that future pricing and discount rates are accurate and in conformance with the contract. Obtain documentation if Parts Plus is going to offer deeper discounts.
- Request that the vendor reimburse the City for the calculated net overpayment of top-purchased Raybestos parts of \$14,778 and overcharges identified in the discount analysis during the audit period of \$2,853 (\$5,632 less \$2,779 included in the list price analysis).
- Work with the vendor to determine if any of the favorable discounts that Parts Plus identified as errors totaling \$17,607 may be considered for an offset against the overcharges.
- Ensure the manufacturer list price is being used as the base price to be discounted. If the manufacturer list price is not available, the City should request that the vendor seek clarification from New Mexico State General Services Department (GSD) to define the alternative pricing terms described in the SPA as “Contractor’s Cost List” and “Actual Net Cost”.
- Work with the vendor to amend the City’s contract to include clarification of availability and use of manufacturer’s retail price and to define the terms “Contractor’s Cost List” and “Actual Net Cost”.
- Once the pricing terms are clarified the City should work with the vendor to determine if any additional overcharges may have resulted from not using the proper pricing for the contract period.

RESPONSE FROM CAO

“The DFAS Fleet Division agrees that the accuracy of contractual stated discounts are not being verified before the goods are ordered. We have been shopping the price between vendors on contract and selecting the highest quality goods, along with the lowest quoted price; occasionally we perform a contract pricing “spot check” on past purchases. The DFAS – Fleet is currently seeking sources to access accurate manufacturer list prices; as the vendors list price publications have proven not to match the manufacturers, and this information has been found to be difficult to locate. Once this is accomplished, we will create a job aide and provide training to our parts workers (the end user) to verify the accuracy of the discount. Once we ensure all vendors are charging the correct price, we will then order the goods from

Z	Misc. Buyouts	3,877	142,717
OTHER	Other Misc. Parts	1,764	36,535
Total		6,937	\$209,531

Source: Parts Plus Invoice detail for period 07/01/16 – 06/30/18

Department staff stated that the use of open contract purchase orders for off-contract automotive parts is a training issue that will need to be addressed.

Administrative Instruction NO: 3-4 VENDOR CITY AND RELATIONS AND RESPONSIBILITIES RELATING TO VENDOR PERFORMANCE

3. End-User/Department Responsibilities Relating to Vendor Performance, (E.) Monitor the Vendor’s progress and performance to ensure that goods and services conform to the contractual requirements. (F.) Conduct a thorough inspection of all goods purchased to ensure that they are in compliance with contractual requirements. The receiving End-User Department shall also inspect and validate that the services being performed on behalf of the City by the Vendor have been performed and have been completed in accordance with contractual requirements.

RECOMMENDATION

The CAO should ensure user department staff are reminded and trained to ensure open contract purchase orders are not used to purchase off-contract automotive parts.

RESPONSE FROM CAO

“DFAS –Fleet is establishing a job aide and training program to assist our parts workers (the end user) in identifying, which goods that the vendor supplies are eligible for purchase; based on the current contract. We are also working with the COA Purchasing Division to remove the language added to the City contract of “do not fill orders for goods/services not listed in this procurement contract”, which is prohibiting the use of what is considered by the finding to be “off-contract automotive part purchases”; this contract is piggybacked from a State Price Agreement which does not prohibit these types of purchases, or have such language.”

ESTIMATED COMPLETION DATES

“Projected completion date April FY19”

- 3. THE DEPARTMENT OF FINANCE & ADMINISTRATIVE SERVICES SHOULD ENSURE SUFFICIENT PROCUREMENT CONTRACTS ARE OFFERED FOR FREQUENTLY PURCHASED AUTOMOTIVE PARTS.**

Many frequently purchased automotive parts from Parts Plus are not being offered on a procurement contract. Without a procurement contract in place, part discount rates were inconsistent and averaged 50 percent.

The total population for the two-year audit period consisted of 5,038 invoices totaling \$871,612. For the period 10/25/16 - 06/30/18, the City purchased \$195,766 of parts that were not listed on the City's Parts Plus contract. For the period 06/30/16 - 10/24/16, Parts totaling \$127,916 were purchased from Parts Plus without a contract in place.

City Departments have limited contracts for automotive and bus parts. As a result, many off-contract parts have been purchased by user departments. DFAS - Purchasing stated that historically there were about 60 auto off-road contracts, however only 5 were receiving business. When the contracts expired in August 2015, they were not prioritized to be renewed.

City Ordinance § 5-5-7 ROA 1994 RESPONSIBILITIES OF THE CENTRAL PURCHASING OFFICE.

(1) To reduce, to the maximum extent possible, the number of purchase transactions by combining into bulk orders and contracts the requirements of users for common-use items or items repetitively purchased.

(3) To develop and use those types of contracts, procurement methodologies and purchase orders which will reduce to the minimum the accompanying paper work and which in other respects will be most advantageous to the city.

(4) To make contract awards for the acquisition of city equipment and machinery to offerors which maintain an adequate supply and/or availability of repair parts and qualified service personnel and facilities located in the Greater Albuquerque Metropolitan Area, capable of providing timely and responsive, major and minor service of the equipment and/or machinery being purchased. This subsection is applicable in circumstances where a lack of such capability could be detrimental to city service delivery.

RECOMMENDATION

DFAS - Purchasing should ensure there is sufficient contracts for frequently purchased automotive parts.

RESPONSE FROM DFAS-PURCHASING

“DFAS-Fleet is working together with the City of Albuquerque Purchasing Division to no longer maintain price agreements or contracts for these types of goods; rather set up all automotive and equipment parts suppliers, that wish to do business with the COA, as registered/approved vendors. This would encourage vendors to always remain competitive, and open up more of a market to small local businesses that don't necessarily have the resources to bid on solicitations. The end user departments would no longer be restricted as to what goods could be purchased from available vendors; and could focus on saving COA dollars.”

ESTIMATED COMPLETION DATES
“Projected completion date April FY19”

4. **THE DEPARTMENT OF FINANCE & ADMINISTRATIVE SERVICES SHOULD ENSURE INVOICES AND CREDITS ARE PROCESSED TIMELY.**

DFAS - Accounts Payable is not ensuring invoices are being paid/credited when received. Parts Plus supplied OIA with an accounts receivable aging report showing outstanding credits and invoices dating as far back as May 9, 2017.

Statements and invoices are mailed to the DFAS - Accounts Payable Division at PO Box 1985 Albuquerque, NM 87103. The City’s Accounts Payable Division reviews the statements but has no specific policy in place to ensure outstanding credits and aged invoices are addressed and processed in a timely manner. DFAS management stated that due to the City’s implementation of eProcurement and Trancepta (electronic invoice submission hub), processes have changed and policies have not been revised. EProcurement and basic validation of Trancepta were implemented in February of 2017.

Two City departments have outstanding invoices/credits on their account since May of 2017. As of statements dated September 6, 2018, there were outstanding unpaid invoices totaling \$140,604 and credits totaling \$17,630 citywide, as shown in the below table.

Summary of Outstanding Invoices and Credits from Parts Plus

Department	Outstanding Invoices	Outstanding Credits	Statement Balance	Invoice/Credit Date Ranges
DFAS- Fleet Mgt.	\$27,507	\$(14,069)	\$13,438	1/17/18- 9/6/18
Transit- Daytona Facility	100,614	(2,586)	98,028	5/9/17- 9/6/18
Transit- Yale Facility	12,483	(975)	11,508	8/30/17- 8/29/18
Grand Total	\$140,604	\$(17,630)	\$122,974	

Source: Parts Plus statements, as of 09/06/2018

Administrative Instruction NO: 3-7 PAYMENTS TO VENDORS DOING BUINSESS WITH THE CITY policy states:

It is the policy of the City to pay all vendors in accordance with the terms of the contracts or within thirty days from the date of receipt of goods or services and/or date of invoice, whichever comes last. It is recognized that in many cases it is not possible to pay within thirty days due to unresolved vendor/City issues that may occur. However, if emphasis is placed by all responsible parties on the entire purchase/receipt/payment process, it is believed that a thirty-day payment policy will be achieved for the majority of payment obligations made by the City of Albuquerque.

Accounting/Accounts Payable:

1. Ensure that all invoices are processed when received. Invoices will be processed using the Purchase Order number referenced on the invoice.

The financial system will validate against open Purchase Orders and Receipts. Where there are exceptions identified by a match-exception process, the Accounts Payable staff will work with the departments to resolve the issues. For invoices submitted through the network hub Transcepta, the Accounts Payable and Accounting staff will review information to ensure that the data is properly loaded in voucher tables and ready for processing. Where there are exceptions identified by a match exception process, the Accounts Payable staff will work with departments to resolve the issues.

2. Work with department liaisons to research and resolve any issues regarding vendor invoices on a timely basis.

3. Work with departments to identify and review invoices older than 60 days for follow-up.

RECOMMENDATION

DFAS - Accounts Payable should:

- Work with City departments and Parts Plus to ensure outstanding invoices and credits are identified and resolved in a timely manner.
- Revise Policies and Procedures to incorporate new or revised processes regarding invoice and credit processing.

RESPONSE FROM DFAS – ACCOUNTS PAYABLE

“The City of Albuquerque Accounts Payable Division agrees with the finding. The Associate Controller is in contact with Parts Plus and is reconciling the City’s aging with Parts Plus statement. In addition, the details to the credits have been requested so accounts payable can apply the credits to the correct department. The Accounts Payable Policies and Procedures will be updated to include monthly reconciliations of customer statements.”

ESTIMATED COMPLETION DATES

“The Parts Plus credits will be cleared within the next three months and the policies and procedures will be modified within the next month”

CONCLUSION

Opportunities for improvements exist among the various City departments that purchase automotive parts from Parts Plus. The various issues identified throughout this report existed and remained unnoticed by the user departments.

Effective contract and billing monitoring is important for ensuring contract compliance and will help user departments identify billing, off-contract, and outstanding invoice and credit issues. In addition, establishing contracts for frequently purchased automotive parts will help ensure the consistent application of discount rates and minimize future procurement issues for user departments.

The scope of our pricing analysis was limited because the vendor did not use manufacture list price as the base price to discount from and manufacturing list price was not maintained by the vendor for the period under audit. Additionally, we could not determine if favorable discount variances identified by the vendor as input errors were due to errors or competitive pricing discounts. Consequently, the City should consider performing additional pricing analysis to determine if additional overcharges occurred.

We greatly appreciate the assistance, involvement, and cooperation of the various City departments. Their time, assistance, involvement and cooperation are greatly appreciated.

PREPARED:

Jennifer N. Baca, Principal Auditor

REVIEWED:

Lawrence L. Davis, Internal Audit Manager

APPROVED:

Jim Thompson, City Auditor
Office of Internal Audit

APPROVED FOR PUBLICATION:

Chairperson, Accountability in
Government Oversight Committee

APPENDIX A

OBJECTIVE

The audit objectives were to determine:

1. Are the vendor's billings accurate and in conformance with the contract?
2. Is the vendor in compliance with the insurance requirements of the contract?

SCOPE AND LIMITATIONS

Our audit did not include an examination of all functions and activities related to the Parts Plus contract. Our scope was limited to the objectives above.

This report and its conclusions are based on information taken from a sample of transactions and do not represent an examination of all related transactions and activities.

Parts Plus and City management are responsible for establishing and maintaining effective internal controls and complying with laws, regulations, contracts, and agreements.

In performance audits, a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct (1) impairments of effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) noncompliance with provisions of laws, regulations, contracts, or grant agreements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective is not met. In the performance audit requirements, the term significant is comparable to the term material as used in the context of financial statement engagements. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

Our consideration of internal control was for the limited purpose described in our audit objectives and was not designed to identify all deficiencies in internal control. Therefore, unidentified deficiencies may exist. Accordingly, we do not express an opinion on the effectiveness of the City's or Parts Plus's internal control.

As part of the performance audit, we tested Part Plus's compliance with certain provisions of laws, regulations, contracts, and agreements and noncompliance with which could directly and significantly affect the objectives of the audit. However, opining on compliance with those provisions was not an objective of the performance audit and accordingly, we do not express an opinion.

The scope of the audit was limited due to the vendor not using or maintaining manufacturer list price or applying proper discounts from such prices.

We conducted this performance audit in accordance with generally accepted government auditing standards for performance audits, as prescribed in *Government Auditing Standards*, revision 2011, issued by the Controller General of the United States. 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.

METHODOLOGY

Methodologies used to accomplish the audit objectives include but are not limited to the following:

- Reviewed procurement contract and corresponding General Instructions, Terms and Conditions;
- Reviewed supporting vendor insurance documents and coverage limits;
- Determined the population of paid invoices during the audit period;
- Identified contractual and non-contractual parts;
- Generated a statistical, random sample using “The Number” sampling software to provide a 93 percent confidence level for contract parts and non-contract parts;
- Selected a judgmental sample of all non-part items, such as shipping and freight;
- Tested the samples of invoices for billing compliance with the contract, rules and regulations, and policies and procedures;
- Recalculated invoices to verify that all are mathematically accurate; and
- Other methodologies as needed.

APPENDIX B

Summary of Contract Parts Sample Unfavorable (Favorable) Discount Variance

#	Invoice #	Invoice Date	Part Number	List Price Each	Discount given	Selling Price	Qty	Total Amount	Contract Disc Rate	Discount Variance, per part	Total Discount Variance
1	1-521270	10/26/2016	STAKS57	\$ 122.98	\$ 0.55	\$ 55.34	1	\$ 55.34	\$ 0.63	\$ 9.22	\$ 9.22
2	1-524442	11/2/2016	MOTFA1632	30.44	0.65	10.67	16	170.78	0.35	(9.12)	(145.86)
3	1-533139	11/18/2016	RAYATD699P	116.70	0.55	52.52	2	105.04	0.58	3.51	7.01
4	1-537889	12/1/2016	GATK040378	37.64	0.55	16.94	1	16.94	0.66	4.14	4.14
5	1-544957	12/15/2016	RAY680110PER	229.90	0.55	103.46	8	827.68	0.58	6.90	55.22
6	1-561546	1/23/2017	CEC123.66015	211.00	0.55	94.95	2	189.9	0.60	10.55	21.10
7	1-595064	3/29/2017	PPE48P	201.51	0.61	78.37	7	548.59	0.55	(12.31)	(86.17)
8	1-598848	4/5/2017	STASTP131C	0.34	0.56	0.15	100	15	0.63	0.02	2.25
9	1-624152	5/26/2017	PPE48P	212.31	0.60	84.92	5	424.6	0.55	(10.62)	(53.10)
10	1-644049	7/6/2017	SACSG304029	23.63	0.58	9.97	1	9.97	0.50	(1.85)	(1.85)
11	1-658505	8/3/2017	ACD252-845	201.43	0.57	86.61	1	86.61	0.56	(2.02)	(2.02)
12	1-671485	8/31/2017	DOR630-413	359.80	0.57	156.51	3	469.53	0.60	12.59	37.77
13	1-678097	9/13/2017	ACDPT1134	65.93	0.57	28.35	1	28.35	0.56	(0.66)	(0.66)
14	1-698828	10/27/2017	MOTXT10QLVC	5.61	0.36	3.61	120	433.2	0.35	(0.04)	(4.38)
15	1-701895	11/2/2017	WIX51792XE	78.42	0.71	22.42	1	22.42	0.67	(3.46)	(3.46)
16	1-708311	11/17/2017	PPE65P	214.11	0.59	88.38	5	441.9	0.55	(7.97)	(39.85)
17	1-720384	12/15/2017	GAT43541	192.08	0.63	72.03	1	72.03	0.66	6.72	6.72
18	1-733576	1/18/2018	PPE75G	181.71	0.57	77.73	4	310.92	0.55	(4.04)	(16.16)
19	1-735906	1/23/2018	RAYSP931PPH	102.52	0.61	39.93	30	1197.9	0.65	4.05	121.44
20	1-761208	3/20/2018	SACSG330077	46.40	0.61	18.32	1	18.32	0.50	(4.88)	(4.88)
21	1-806699	6/27/2018	CAM12-325	1.98	0.55	0.89	21	18.69	0.50	(0.10)	(2.10)
22	8-334694	12/12/2016	ANCEM-2866	25.86	0.51	12.58	1	12.58	0.65	3.50	3.50
23	8-336638	12/27/2016	DOR611-115	3.90	0.55	1.76	10	17.6	0.60	0.20	2.00
24	8-350683	4/5/2017	STAPS308T	86.98	0.55	39.14	1	39.14	0.63	6.52	6.52
25	8-355235	5/8/2017	CHPPH820	6.78	0.70	2.03	1	2.03	0.65	(0.34)	(0.34)
26	8-371814	9/6/2017	CHPPH47	5.98	0.70	1.79	1	1.79	0.65	(0.30)	(0.30)
27	8-372323	12/8/2017	ACDD2257C	101.13	0.57	43.49	1	43.49	0.56	(1.01)	(1.01)
28	8-384828	1/23/2018	MOTXO5W20QSP	5.06	0.37	3.19	120	382.8	0.35	(0.10)	(11.88)
29	8-403804	4/30/2018	BUSATC40	0.89	0.80	0.18	10	1.8	0.50	(0.27)	(2.65)
30	8-405661	5/11/2018	MOTXT10QLVC	5.73	0.33	3.82	84	320.88	0.35	0.10	8.20
31	8-335461	12/16/2016	CHPAF1096	17.98	0.80	3.59	1	3.59	0.65	(2.70)	(2.70)
32	1-805654	6/25/2018	PPE49S	260.91	0.57	111.61	3	334.83	0.55	(5.80)	(17.40)
<i>Unfavorable (Favorable) variance, with rounding</i>										\$ 0.46	\$ (111.65)

Source: Parts Plus

Unfavorable discount variance
Favorable discount variance