



February 27, 2019

**Performance Audit**

**Parts Plus of New Mexico, Inc.**

**Citywide Contract Audit – Vendor Report**

**Report No. 18-105**

**PARTS  PLUS**



**CITY OF ALBUQUERQUE  
OFFICE OF INTERNAL AUDIT**

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

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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.

## Executive Summary

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.

During the audit period, the City paid Parts Plus \$871,612 of which \$547,930 were paid for purchases of parts under contract. Of those purchased under contract, the majority of paid invoices (79%) were erroneously tied to Purchase Orders with Contract Id #709179, with combination of contract part types that were listed in the contract with an approved discount rate and part types that were not listed in the contract and therefor had no approved discount. Due to this combination, the audit population was segregated by part types that were listed on the contract and those that were not listed on the contract (i.e., off contract purchases).

Contractual billing inaccuracies were noted and include:

- Incorrect discount rates charged for parts; and
- Not using manufacturer list price.

From a statistical random sample of 40 invoiced parts, 32 parts (80%) contained inaccurate discount rates. Thirteen invoiced parts contained unfavorable discounts resulting in over charges and nineteen items with favorable discounts.

Under the purchasing agreement, Parts Plus is to use the manufacture current retail price as the price to be discounted. Parts Plus uses its own "competitively" derived list price, it does not use the manufacturer's list price as starting price to be discounted. An additional manufacturer list price analysis was prepared on eighteen (18) frequently purchased Raybestos (RAY) parts, and for the audit period the City paid \$14,778 more, than would have using the manufacturer's list price and approved discount rate.

Parts Plus agrees with the City audit which reviewed 5,038 invoices totaling \$547,930 in regard to the following. The City was undercharged by \$17,607, and overcharged by \$5,632...

We disagree with the City audit in terms of their audit of our Raybestos brake product line. Their audit of this line showed \$14,778 in overcharges...

(See **Appendix C** for complete responses)

## Recommendations

Parts Plus of New Mexico, Inc. should:

- Ensure that billing is accurate and in conformance with the contract.
- Correct and clarify its billing process to ensure that invoices include:
  - Manufacturer's list price, as price to be discounted; and
  - Accurate discount rates.
- Work with the Department of Finance & Administrative Services – Purchasing Division to amend contract to include:
  - Current and applicable part's manufacturers and their applicable discount rates; and
  - Clarification of the use of manufacturer's current retail price and other contract pricing terms.



# City of Albuquerque

*Office of Internal Audit*

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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 – Vendor Report**

### **INTRODUCTION**

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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
<b>Grand Total</b>	<b>\$127,916</b>	<b>\$547,930</b>	<b>\$195,766</b>	<b>\$871,612</b>

Source: *Parts Plus*

**FINDINGS**

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

- PARTS PLUS SHOULD ENSURE THAT ITS BILLINGS ARE ACCURATE AND IN CONFORMANCE WITH THE CONTRACT.

Parts Plus is not billing in accordance with the contract. The following billing issues were identified during the audit:

- Incorrect discount rates charged for parts; and
- Manufacturer retail prices are not being used to establish the price from which discounts are applied to.

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.

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 manufacture’s retail prices as the basis from which discounts are applied.

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	Variance Total
Unfavorable	13	32.5%	\$285.10
Favorable	19	47.5%	(396.75)
Accurate-within rounding	8	20%	0.07
	<b>40</b>	<b>100%</b>	<b>\$(111.58)</b>

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 a 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 below graphic.

**PARTS PLUS** 5900 OFFICE BLVD NE ALBUQUERQUE, NM 87109 (505) 341-7000 www.partsplusnm.com CUST PO#: PODFA-DEA0010568

TYPE: INVOICE 1-735906

SALESPERSON: DRAMER, DANIEL SHIP VIA: SAN ANTONIO AND SAN PG: 1

TERMS: 2% 10TH, NET 30TH

BILL TO: Cust. Acct#497 CITY OF ALB. (PINO) P O BOX 1985 ALBUQUERQUE, NM 87103

SHIP TO: 01/23/18 01:52PM CITY OF ALB (PINO) 5501 PINO ALBUQUERQUE, NM 87102

QTY	B/O	ITEM NO.	DESCRIPTION	LIST	UNIT	CORE	EXTENDED	TX
			NO PALLETS AFTER 8:00PM					
30	0	000082 RAYSP931PPH	POLICE PADS	102.52		39.93	1,197.90	E
RECD BY: <i>[Signature]</i>			SALE AMOUNT	TAX%	TAX	EXEMPT	CORE	TOTAL SALE
			1,197.90	0.7500		1,197.90	0.00	1,197.90

Part Plus List Price      Selling Price      RH: DEA0003924

Source: Parts Plus Invoice #1-735906

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 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 58 percent and charged \$88.38 per “PPE65P” part rather than \$96.17 per part, as shown in the below graphic.

2017 DEC -4 AM 8:19

**PARTS PLUS** 5900 OFFICE BLVD NE TYPE: INVOICE 1-708311  
 Albuquerque, NM 87109  
 (505)341-7000  
 www.partsplusnm.com CUST PO#: PODFA-DFA0010358 SALESPERSON: DRAMER, DANIEL Customer

TERMS: 2% 10TH, NET 30TH SHIP VIA: SAN ANTONIO AND SAN PG: 1

BILL TO: Cust. Acct#497 CITY OF ALB. (PINO) P O BOX 1985 ALBUQUERQUE, NM 87103		SHIP TO: 11/17/17 06:55AM CITY OF ALB (PINO) 5501 PINO Albuquerque, NM 87102	
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QTY	B/O	ITEM NO.	DESCRIPTION	LIST	UNIT	CORE	EXTENDED	TX
			NO PALLETS AFTER 3:00PM					
2	0	000903 PPE90S	Parts Plus - 12 mo F Transferred from Whse: PARTS PLUS LA JARA on 0190055 1 YEAR WARRANTY NO PRORATE	196.11	83.89		167.78	E
2	0	RAY780457	Disc Brake Rotor Onl	82.98	29.04		58.08	E
15	0	RAYSP932PPH	POLICE PADS	101.72	39.46		591.90	E
1	0	RAYEHT1037H	PREMIUM BRAKE PAD	85.90	30.07		30.07	E
10	0	RAY680110P	ATD POLICE ROTORS	211.32	73.96		739.60	E
5	0	PPE65P	Parts Plus-36 mo Fre	214.11	88.38		441.90	E

RECD BY:	SALE AMOUNT	TAX%	TAX	EXEMPT	CORE	TOTAL SALE
						* Continued *

Parts Plus List Price      Selling Price

Source: Parts Plus Invoice #1-708311

Section 29 of the City's General Terms and Conditions states that *Attachment A* specifies the discount rates to be applied and references New Mexico's Statewide Price Agreement (SPA) 60-000-16-0050BK. The Scope of Work section in SPA 60-000-16-00050BK states, "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." Additionally, page 60 contains a note clarifying the application of the discount and states, "Please see attached list for discount off manufacture list price".

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**

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

Source: *Parts Plus*

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

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, Parts Plus should work with the City’s Department of Finance & Administrative Services 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.

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. 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 definition 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 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.

<b>LIST PRICE ANALYSIS ON RAYBESTOS PARTS</b>			
<b>Part Number</b>	<b>Brake Parts (Manufacturer) List Price * Contract Discount</b>	<b>Parts Plus List Price * Contract Discount</b>	<b>Overpaid (Underpaid)</b>
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
<b>Grand Total</b>	<b>\$139,350</b>	<b>\$154,128</b>	<b>\$14,778</b>

*Source: Parts Plus and Brake Parts Inc.*

For example, invoice #1-530937 shows a total overcharge of \$430.83 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 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 charge would have been \$824.42. As a result, the City was overcharged \$210.18 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	\$824.42

\*As of 11/15/16, contract discount rate was 58% overcharge \$ (210.18)

- For “**RAY780395PER**” the Parts Plus List Price is \$284.46 and manufacturer list price is \$252.25. Additionally, Parts Plus applied a discount of 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 \$1,059.45. As a result, the City was overcharged \$220.65 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	\$1,059.45
				<i>overcharge</i>	<b>\$ (220.65)</b>

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

**RECOMMENDATIONS**

Parts Plus should:

- Ensure that future pricing and discount rates are accurate and in conformance with the contract. Provide documentation if Parts Plus is going to offer deeper discount.
- 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 City’s Department of Finance & Administrative Services – Purchasing Division 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 vendor should to 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 City’s Department of Finance & Administrative Services – Purchasing Division 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 vendor should work with the City to determine if any additional overcharges may have resulted from not using the proper pricing for the contract period.

RESPONSE FROM PARTS PLUS

*“Parts Plus agrees with the City audit which reviewed 5,038 invoices totaling \$547,930 in regard to the following.*

*“The City was undercharged by \$17,607, and overcharged by \$5,632. This audit discrepancy was determined by taking the list price printed on each invoice and calculating the discount off of list price and comparing this discount with the discounts that were offered in the NM State contract.*

*“We disagree with the City audit in terms of their audit of our Raybestos brake product line. Their audit of this line showed \$14,778 in overcharges. On this product line, the City used the list price provided to them by Raybestos brake which is a non-published list price as opposed to the list price generated and used by us in the New Mexico market...”*

*See Appendix C for complete vendor response.*

ESTIMATED COMPLETION DATES

*“N/A”*

AUDITOR’S COMMENT

Parts Plus agrees that the application of incorrect discount rates resulted in overcharges of \$5,632 and undercharges of \$17,607. Parts Plus acknowledges that its internally derived list prices was used instead of the manufacture list price as the base price before the discount was applied. Parts Plus disagrees with OIA’s Raybestos Parts analysis using Manufacture List Price that resulted in an overcharge of \$14,778.

Parts Plus response did not provide additional evidence that would support allowing the use of an internally derived list price which was set higher than the Manufacture List Price. Our report notes:

- 1) Page 60 of SPA 60-000-16-00050BK contains a note clarifying the application of the discount and states, *“Please see attached list for discount off manufacture list price”*;
- 2) 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*
- 3) Parts Plus did not use the manufacture list price, even though it may be available if requested from manufactures.

Subsequent to receiving Parts Plus response OIA attempted to seek further clarification from GSD on the use of Manufacture Price List. On January 9, 2019 GSD noted:

*“We understand that the matter regarding the Manufacturer’s List Price and the internal list price may have discrepancies. State Purchasing will look into this matter and remedy the situation as best we can. At this time we ask for your patience.”*

As of February 4, 2019 OIA has not received additional information from GSD or Parts Plus that would cause OIA to consider modifying our finding and recommendation as presented herein.

## CONCLUSION

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Contractual compliance and invoice accuracy are key requirements of City vendors. Opportunities exist for Parts Plus to improve in these areas. The review of a two-year period of Parts Plus's invoices identified various contractual and billing issues. By addressing the items contained in this report, Parts Plus will help to improve and strengthen its relationship with the City departments and contractual compliance.

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 Vendor should work with the City to resolve current pricing issues and to clarify future pricing compliance requirements.

We greatly appreciate the assistance, involvement, and cooperation of the Parts Plus management and staff. Their time, assistance, involvement and cooperation are greatly appreciated.

PREPARED:

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Jennifer N. Baca, Principal Auditor

REVIEWED:

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Lawrence L. Davis, Internal Audit Manager

APPROVED:

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Jim Thompson, City Auditor  
Office of Internal Audit

APPROVED FOR PUBLICATION:

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Ed E. Perea, Chairperson, Accountability in  
Government Oversight Committee

## APPENDIX A

### OBJECTIVE

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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

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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 management is responsible for establishing and maintaining effective internal control 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 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

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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**

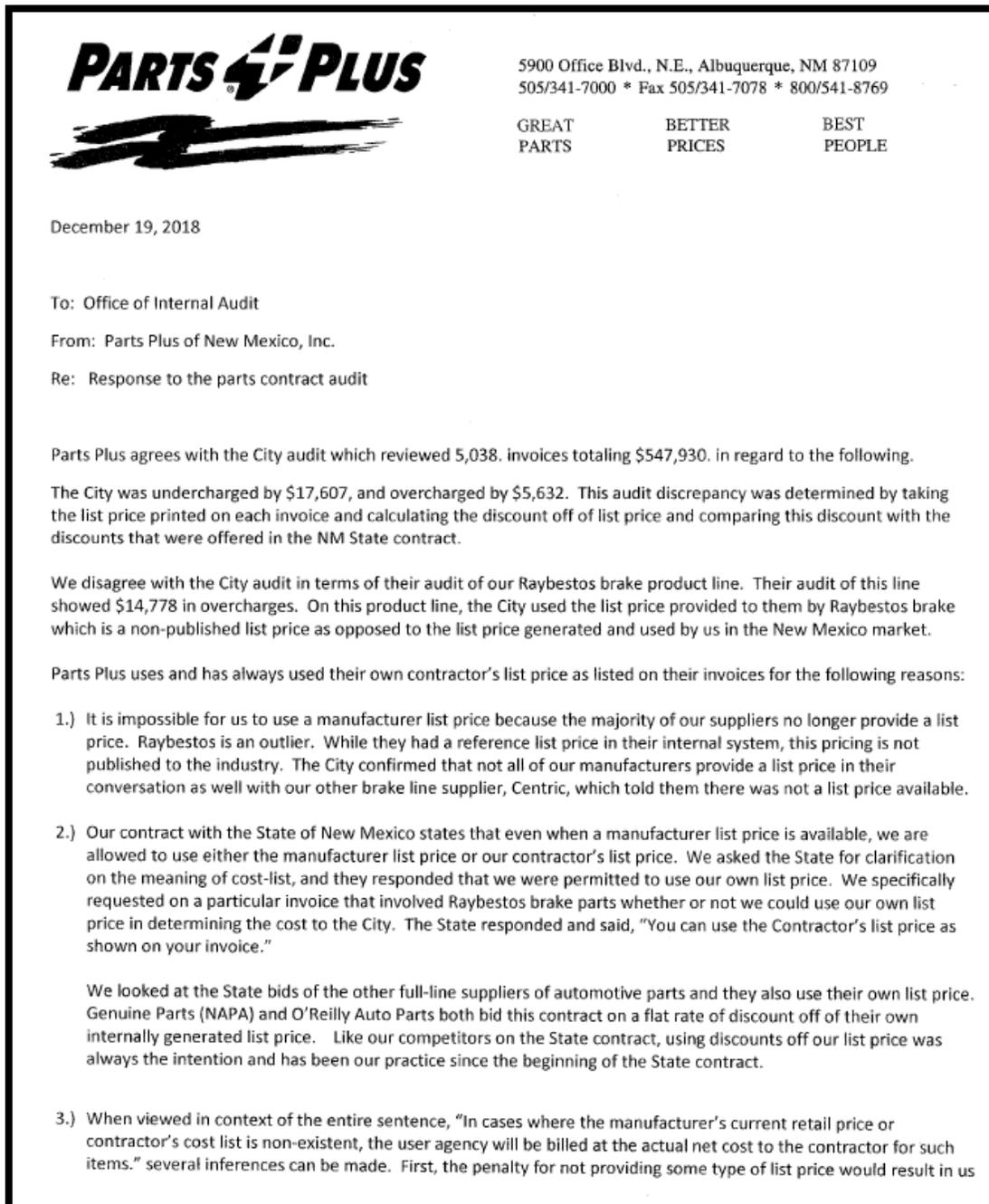
**Summary of Contract Parts Sample Unfavorable (Favorable) Discount Variance**

#	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	MOTFA 1632	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	MOTXO5W20QSF	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

APPENDIX C



lowering our price and selling at our net cost. Second, Parts Plus is the contractor so cost-list is a price that is determined by us. Third, the sentence makes no sense if cost list actually refers to our cost. Therefore, the only logical conclusion that can be drawn from this ambiguous sentence, is that cost list is, in fact, the list price we generate. (which is based on our cost.)

- 4.) Our intention when we hand wrote on the State contract " \* \* PARTS ONLY\*\* Please see attached list for discount off manufacturer list price" was to bring awareness of the fact that the other full-line warehouses who were bidding on this contract typically bid the same discount on all of their product lines and we did not want to do this. We elected to offer a different discount from list price bid each line separately. In order to do this, we had to list each separate line. The last page of our contract lists all of these lines and their respective discount. Please note that the heading says "Discount off List Proposal and the column on the far right is Discount off list. We had to list all the manufacturers because our discount was different for each manufacturer. This was not necessary with Genuine Parts and O'Reilly because they bid the same amount of discount on all lines.

The intent of this comment on page 60 of the State contract was to clarify the fact that the amount of the discount was different for each product line and we cannot describe these product lines by application ie. brake parts or oil or shocks or fuel pumps, etc. because we have several different suppliers in each of these product lines. Our discount offered is different for each manufacturer. This is not the case with the Genuine Parts or O'Reilly bids. We were only trying to clarify that the discount is different depending upon the product purchased. The only possible way to do this is to put in our Description column, the name of each manufacturer.

Further, if we intended to mean the discount was off the manufacturer price sheets it would have stated, to be grammatically correct, off the manufacturers' price sheets. (*s'* highlighted)  
There was never any question in our mind of the intent because we had only used our internally generated list price for several years. The City audit department believes that our intent was to take the discounts off the manufacturer's list price.

In addition, there is no other evidence in the City contract that states our pricing is based on each Manufacturer's list price. The column with pricing says, "Discount off List." In regard to brake products, we list Centric (60%); Parts Plus Blue Rotors (60%); Powerstop Brakes (50%) and Raybestos Police Friction (65%). We have to specify each line in the Description column on the contract by manufacturer name because our internally generated list price is different for each manufacturer.

6. Even though it is not the concern of the auditors, we feel because of the possible misunderstanding regarding this issue, it is important to analyze the pricing pattern and actual prices charged as well as our cost for these Raybestos parts. We have made available to the auditors the following information:
- a) Consistent and even lowered pricing to the city near the beginning of the audit period and throughout the audit period.
  - b) The over-all gross profit margin for Parts Plus was quite low. (actual invoices showing our cost are available for the committee to review)

Final Opinion: We believe the City is very effective in paying the lowest possible price with their parts purchases. They frequently ask for a price quote and then call us back later with a PO number if they want us to fill the order. They have the opportunity to compare our price with the price of our competitor's by accessing their commercial web sites across

other distributors that contain all of this information. Many instances we do give them a quote, but never fill the order. Rather than relying on someone's list price and calculated the amount of discount to apply, the City has the opportunity to review the pricing each time they order. On page 7 of our audit report, it states,

**"In a meeting with the City's Fleet Management on 7/10/2018, Fleet Management stated that they would purchase directly from the manufacturer or elsewhere, if the price was not competitive." (from Parts Plus)**

Parts Plus has been hesitant to increase prices for these reasons. Often we choose not to increase our list price even though our cost has increased. This is especially true when our cost increase is minimal or only affects a small portion of the product line in question. This explains the considerable amount of undercharges.

Conclusion and Action Plan:

The recommendations in the audit report involve working with the City on clarifying terms, insuring accuracy in billing, determining the validity of either any credit offsets or additional overcharges and making certain that future billings are accurate and in conformance with our contract.

Contract term clarification:

As soon as our report recommendation was issued to us in December, we not only immediately reached out to the GSD State Purchasing division to work on putting an amendment in our State contract that clarifies our intent to base discount off our contractor's list price, but also reached out to the Chief Procurement Officer for the City to work on clarifying our City contract going forward. As of December 19<sup>th</sup>, we have already had a meeting with the City purchasing department that was very productive. We both agreed to we will either continue to use the State GSD contract when it is amended, or use a newly created City contract that gets put out to bid which will clearly define and clarify pricing, terms, and part type sale adherence. We both hope to get this done in the first quarter of 2019.

Billing accuracy of all discounts off list:

We immediately reviewed and implemented a strict and exact adherence on our current City contract so all discounts off list are exactly correct.

Over/Undercharges:

In regard to reconciling all overcharges, under billings, past outstanding credits not taken, and past bills and invoices not paid, we intend to work with the City's Accounts Payable department and budget officers to make sure everything is fully reconciled to their complete satisfaction. We intend to work with them to reconcile and provide all part billing and invoice detail they need to fully account for all monies owed to not only to the City, but also Parts Plus. We will insure that the City's budget and finance division is fully satisfied and made completely whole on all billing discrepancies. We intend to get this done in the first quarter of 2019.

We greatly appreciate the assistance, involvement, and cooperation of the City of Albuquerque and the Office of Internal Audit in their roles in helping us addressing and resolving all issues brought up in our audit report.