

**VENDOR AUDIT – CORPORATE EXPRESS**

**REPORT NO. 06-108 – CE**



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

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

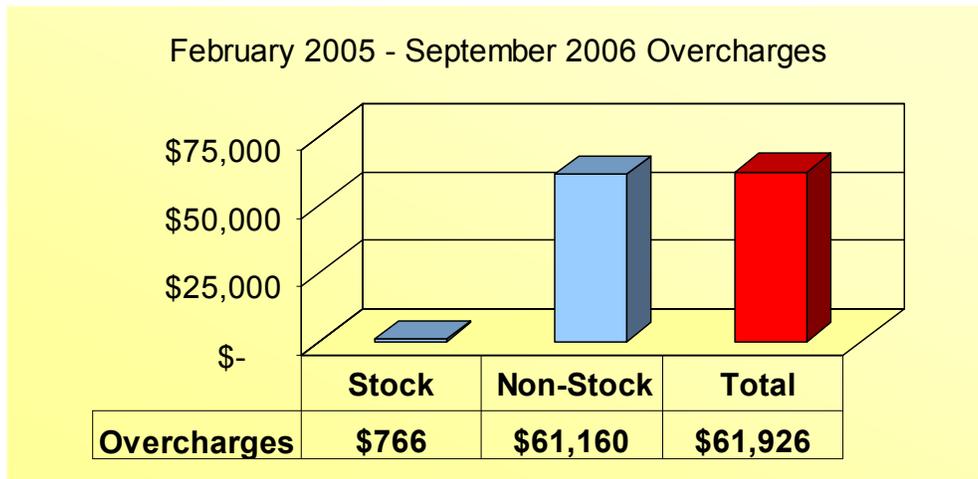
Corporate Express (CE) is the City of Albuquerque’s (City) Just in Time contract (contract) supply vendor. From the inception of the contract on February 1, 2005 through September 30, 2006, the City purchased approximately \$1,999,000 in supplies.

The 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 for supplies purchased through the contract?*

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



**Recommendations:**

- ❖ CE should refund the City **\$61,926** for overcharges.
- ❖ CE should charge the City in accordance with the contract.

**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:**

- ❖ CE should prepare the QBR’s timely and in accordance with the contract terms.

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

- ❖ CE could not provide the Office of Internal Audit and Investigations (OIAI) with 22 of the 63 requested invoices.
- ❖ CE permanently changed the City’s ordering preference on two calendars without proper written approval. One of the calendars no longer appears on E-Way, CE’s online ordering website.
- ❖ The display icon on E-Way currently represents both stock items and best buy alternatives, which is misleading to the City’s supply purchasers.
- ❖ Some restricted items in the contract were not blocked on E-Way.

**Recommendations:**

- ❖ CE should provide information requested for auditing timely as required by the contract.
- ❖ CE should obtain written approval prior to changing the City’s ordering preferences and verify that all stock items are available on E-Way.
- ❖ CE should correct the stock symbol to reflect only stock items.
- ❖ CE should make certain that all restricted items noted in the contract are properly blocked on E-Way.

**Corporate Express 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

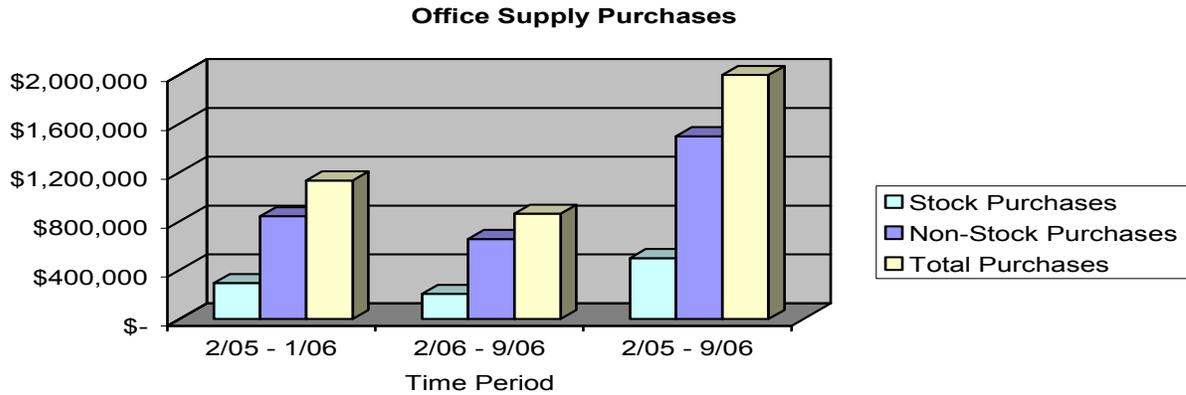
Audit: Vendor Audit – Corporate Express  
06-108 – CE

**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 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 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.

## FINDINGS

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

1. CE SHOULD PROVIDE INFORMATION REQUESTED TIMELY AS REQUIRED BY THE CONTRACT.

On April 4, 2006 OIAI requested from CE 63 invoices for non-stock items. On June 24, 2006 OIAI determined that CE could not provide us with 22 of the 63 requested invoices. The invoices provided by CE pertained to purchases made by CE customers other than the City. We decided that we would perform our compliance test work on the 41 invoices provided.

The contract states, “All invoices of the offered items, from suppliers to the contractor, shall be subject to auditing by the City and furnished without delay upon request.”

Of the remaining 22 invoices, seven invoices were never provided to us and 15 invoices related to CE’s private label manufacturer. CE stated that their manufacturer uploads their cost directly into CE’s inventory system; therefore, no invoices are generated. Because CE could not provide us with all of the invoices we requested CE could owe the City more money than we were able to determine.

## RECOMMENDATION

CE should provide information requested timely as required by the contract.

## RESPONSE FROM CE

*“CE did not provide information in a timely manner. In the upcoming RFP for the City, CE will be specific about what information can be provided for auditing purposes.”*

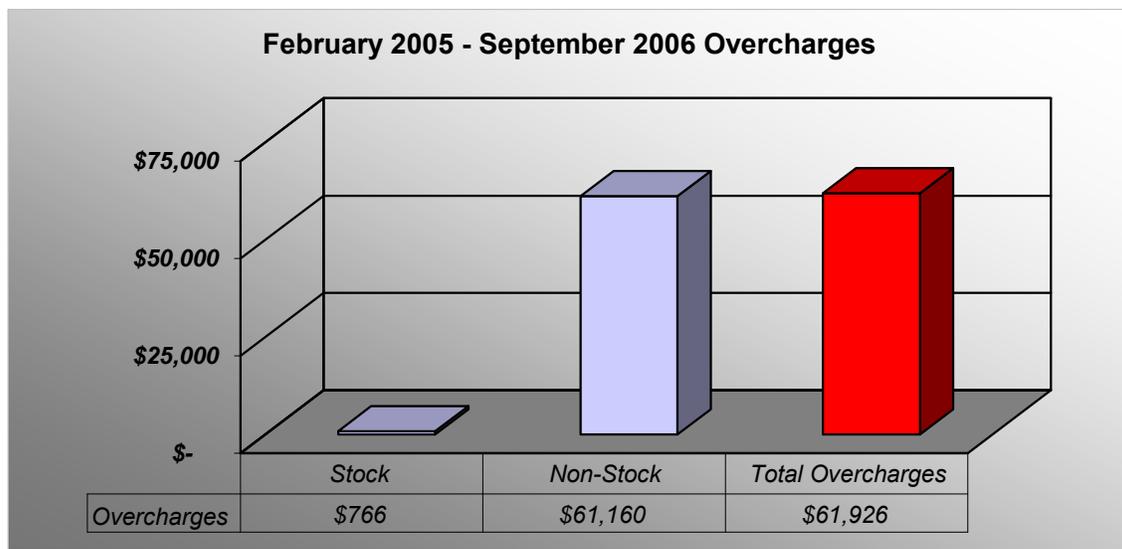
2. CE SHOULD REFUND THE CITY \$61,926 FOR OVERCHARGES AND CORRECTLY CHARGE THE CITY IN ACCORDANCE WITH THE CONTRACT.

Of the 41 invoices tested we noted the City was **overcharged** on 37 purchases and **undercharged** on four of the 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** then 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.

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

CE should refund the City **\$61,926** for overcharges. CE should charge the City in accordance with the contract.

### RESPONSE FROM CE

***“CE has paid the \$61,926 from February 2005 through September 2006. Beginning October 1, CE reduced the non stock purchase price 4.0831% and the stock price .1528%.”***

3. CE SHOULD PREPARE THE QUARTERLY BUSINESS REVIEWS (QBR) TIMELY AND IN ACCORDANCE WITH THE CONTRACT TERMS.

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; CE prepared and presented to the City the QBR for July 2005 through March 2006. The eight-month report was delivered to the City’s Internal Services Supervisor (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.

During our review of the reports delivered to the City we noted no mention of recommendations for additions, deletions and revisions. The information in the QBR could have provided an opportunity to add items to the stock listing which could have saved the City money.

RECOMMENDATION

CE should prepare the QBR’s timely and in accordance with the contract.

RESPONSE FROM CE

***“CE has now completed all QBR’s with the exception of Q4 2006, which has been requested.”***

4. CE SHOULD OBTAIN WRITTEN APPROVAL PRIOR TO CHANGING THE CITY’S ORDERING PREFERENCES.

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 provided a verbal agreement to CE regarding the calendar change. However, the ISS believed CE would substitute the calendars with CE’s private label brand for one year only.

At that time, CE changed the City’s ordering preference for these two items to permanently order the private label calendar and refills. The contract states that all revisions to stock items will become effective only after the City receives a written request from CE and is

accepted by the Purchasing Division. CE did not follow the proper process in obtaining written approval from the City prior to changing the City's ordering preferences.

CE stated that they began a campaign in late 2005 to sell their recently added private label items as an alternative to the brand name calendars. At that time CE changed the City's ordering preference for these two items to permanently order the private label calendar and refills. Consequently, the City was paying the contract price for a non-equivalent brand during the new calendar year.

#### RECOMMENDATION

CE should obtain written approval prior to changing the City's ordering preferences.

#### RESPONSE FROM CE

***“CE obtained verbal approval for the change in calendars, and will obtain written approval for any change in the future.”***

#### 5. CE SHOULD CORRECT THE STOCK SYMBOL TO REFLECT ONLY STOCK ITEMS AND ENSURE EACH STOCK ITEM IS AVAILABLE ON E-WAY.

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 usually a CE private label item. In addition, we noted that the desk pad calendar mentioned in Finding 4 no longer appears as a stock item on E-Way. CE no longer carries this calendar in its inventory.

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. The City's office supply purchasers are encouraged to purchase stock items as their first choice.

CE stated that including the best-value alternatives with the icon was a good way to let City supply purchasers know that there were alternatives for stock items. As a result, CE is misleading the City's supply purchasers as to which items are true stock items.

#### RECOMMENDATION

CE should correct the stock symbol to reflect only stock items. CE should also verify that all stock items are available on E-Way.

#### RESPONSE FROM CE

***“CE spoke with the City and received approval to have the best value alternative highlighted as an option. Whether the item is stock or nonstock,***

*a best value alternative may be available. These better priced alternatives can only be highlighted using the stock symbol in E-Way, but can be removed at the City’s request.*

*“All stock items are currently available on E-Way and the stock calendar was replaced with a comparable product.”*

6. CE SHOULD MAKE CERTAIN RESTRICTED ITEMS NOTED IN THE CONTRACT ARE 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.

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 did not block all the items prohibited by this contract. As a result, the City paid for items under the contract that should have been billed using alternative methods.

RECOMMENDATION

CE should make certain that restricted items noted in the contract are blocked on E-Way.

RESPONSE FROM CE

*“At the inception of the contract CE blocked a number of product categories, furniture, facilities, machines over \$100.00, etc. Some individual products may be categorized differently by CE than by the City (ex: An earpiece for a phone is categorized as an office supply by CE, but may be considered an item that needs to be blocked by the City). CE will gladly block any item at the request of the City.”*

## CONCLUSION

CE should repay the City **\$61,926** for the overcharges from February 2005 through September 2006. CE should also ensure that they properly charge the City for all supply purchases.

CE should provide the City with timely Quarterly Business Reviews that include all the items required by the contract. CE should also make certain that restricted items noted in the contract are blocked on E-Way.

CE should correct the stock symbol on E-Way to reflect only the stock items. In addition, CE should not change the ordering preferences without first obtaining proper written approval from the Purchasing Division.

In the future, CE should promptly provide OIAI or the City with the requested invoices as required in the contract.

We appreciate the cooperation of Corporate Express' 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