

LEGISLATIVE AUDIT DIVISION

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MEMORANDUM

TO: Legislative Audit Committee Members
FROM: Ross Johnson, Senior Performance Auditor
CC: Sheila Hogan, Director, Department of Administration
DATE: June 2013
RE: Performance Audit Follow-Up (13SP-13): Improving Montana's Office Supply Acquisition Processes (orig. 11P-09)
ATTACHMENTS: Original Performance Audit Summary

Introduction

The performance audit *Improving Montana's Office Supply Acquisition Processes* (orig. 11P-09) was issued to the Committee in October 2011. The audit included three recommendations to the Department of Administration (department). In May 2013, we conducted follow-up work to assess implementation of the report recommendations. This memorandum summarizes the results of our follow-up work.

Overview

This audit contained findings and recommendations related to cost savings on the routine purchase of office supplies and strengthening the monitoring of office supply contractor performance. The department has implemented or is in the process of implementing each of the three recommendations contained in the report which should result in cost savings to agencies when purchasing office supplies and provide for a monitoring process for the regular evaluation of contractor performance.

Background

In Montana, state agencies have purchased essential supplies such as paper, pens, toner, and tape through a statewide contract with a private contractor, through the state operated Central Stores warehouse, or from the retailer of their choice. Supplies ordered through the contractor were first shipped to a central warehouse in Helena by the vendor then distributed to the agency location. We reviewed transactions for each of these types of purchases with two objectives:

1. To determine if the processes in place for office supply acquisition obtain products at the lowest available price.
2. To evaluate management of the office supply acquisition processes.

We found that existing processes for purchasing office supplies could be improved to reduce costs to agencies. We identified \$109,000-\$139,000 in potential savings during a review of a six-month time period. We also found the contractor monitoring process and communication with agencies could be improved.

Follow-up Audit Results

The following sections summarize the progress toward implementation of the report recommendations. We have classified one of the recommendations as "implemented" and the other two as "being implemented," though we expect each to be fully implemented later this year.

RECOMMENDATION #1

We recommend the Department of Administration:

- A. Seek a statewide contract for office supplies that features direct delivery of products from a vendor to the ordering agency.**
- B. Include the office supplies currently sold through Central Stores in a new direct delivery statewide contract for online ordering of office supplies.**

Implementation Status – Being Implemented

During the 2013 Legislative Session, the department sought a reduction in the markup rate charged by Central Stores that would allow it to move to a vendor-direct model. The department has signed an agreement with one vendor and, at the time of follow-up work, was in the final stages of forming an agreement with a second vendor to provide state agencies with vendor-direct delivery of office supplies. Both vendors have existing contracts through the Western States Contracting Alliance (WSCA) that Montana plans to join as a participating member. Plans call for agencies to be able to use a central online purchasing portal to order these products. The goal for crossover to the new contracts has been set for July 1, 2013. The new contracts include a wide variety of office supplies but do exclude some of the nonoffice supply products formerly sold through the Central Stores warehouse. The excluded products include janitorial supplies, food service disposable products, and coarse paper products (such as wrapping paper, bags, etc.). The excluded products will be made available to agencies through separately bid term contracts.

RECOMMENDATION #2

We recommend the Department of Administration establish a process to coincide with contractor reporting periods to review the office supply contractor's performance in comparison to contract terms and conditions.

Implementation Status – Being Implemented

Department staff members reported that a new contract monitoring process will be put in place for the office supply contracts. The department plans to use the services of a third-party business process management company that will monitor the usage and performance of the office supply vendors. The monitoring company indicates its products can help users to navigate from overall state/agency spending to individual line item detail and provide alerts and notifications related to contract activity. The cost of this service is included in the WSCA contracts.

RECOMMENDATION #3

We recommend the Department of Administration enhance communication related to the requirements and benefits of using statewide ordering systems.

Implementation Status – Implemented

The department has communicated the requirements and benefits of using the current statewide ordering system by distributing information to state personnel. Future plans call for training related to the use of the new online system prior to the contract crossover. Two in-person classes will be offered in June 2013 along with an online webinar. Department staff members also report that agency leadership has been informed of the transition through cabinet-level meetings. Further, department staff members expect that the vendors themselves will also participate in promoting the new contracts.