

PERFORMANCE AUDIT

Improving Montana's Office Supply
Acquisition Processes
Department of Administration

OCTOBER 2011

11P-09

REPORT SUMMARY

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.

Context

Office supplies are necessary for the day-to-day function of any business or government agency. In Montana, state agencies purchase 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. Products from the contractor and Central Stores may be ordered through a single website while purchases made through other retailers may be in local stores or online. 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 obtained transaction level data for office supplies for a six-month time period and compared the prices paid to the prices for which identical or equivalent products could be obtained from other sources during the same time period. We also obtained information related to office supply procurement in other states, evaluated monitoring procedures for each procurement method, and conducted a survey of individuals who purchased office supplies.

Results

The existing statewide contract calls for the contractor to deliver office supplies to the Central Stores warehouse in Helena. State personnel at this warehouse then deliver (or arrange for delivery) to the ordering agency. A markup is added to the cost of contractor supplied items to cover overhead and delivery. There were a total of \$1.28 million in sales under the contract for the six-month timeframe we considered. We identified potential savings of \$103,000 if the Department of Administration would adopt a contract that provides vendor-direct delivery of contract items. The contract used for this pricing analysis features an optional administrative fee. If the maximum fee was added to the cost of products under this contract the potential savings would be reduced to \$83,000.

Central Stores carries three basic lines of products: office supplies, food service disposables, and custodial products. Products are ordered from various vendors and warehoused in Helena, where they may be ordered by agency end users. There are a total of 100 different types of office supplies in its catalog, mostly commonly purchased items such as paper, batteries, or mailing labels. Central Stores buys products from vendors using a competitive process then adds a markup to each product that it sells

to cover the overhead and delivery costs. The total dollar value for Central Stores office supply transactions during the time period analyzed was \$485,000. We identified potential savings of \$31,000-36,000 if the Department of Administration would adopt a contract that provides vendor-direct delivery of warehoused items. These contracts also feature an optional administrative fee. If the maximum fee was added to the cost of products under these contracts the potential savings would be reduced to \$26,000-28,000. Together with the potential savings discussed in the previous paragraph, these savings yield a total of \$109,000-139,000 in potential savings during the six months we reviewed.

If the Department of Administration does award a contract as described above it should also implement a process to monitor the performance of that contractor. Such a process would help ensure the contractor fulfills the contract as intended. Without periodic monitoring a contractor could bill at rates that are higher than those which are required by contract or the contractor may perform poorly in terms of service or delivery time.

Finally, there are many transactions with office supply retailers outside the existing state programs. The total value of transactions with office supply retailers using a state issued procurement card during our time period was \$781,000. These purchases are allowable if the product purchased is less expensive than through the state sponsored programs. We reviewed a sample of products from this set of transactions and found that in 24 of 29 cases the purchased products cost more than they would have through the state website. The Department of Administration should increase its outreach to state agencies to promote the requirements and benefits of using the state sponsored programs for purchasing office supplies.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (11P-09) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>
 Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
 Call toll-free 1-800-222-4446, or e-mail lad@mt.gov.