



PERFORMANCE AUDIT REPORT
Kansas Use Law: Reviewing Issues Related to the
Quality and Price of Goods and Compensation of
Executives

Executive Summary
with Conclusions and Recommendations

A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
June 2008

Legislative Post Audit Committee

Legislative Division of Post Audit

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LEGISLATURE OF KANSAS
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June 18, 2008

To: Members of the Kansas Legislature

This executive summary contains the findings and conclusions, together with a summary of our recommendations and the agency responses, from our completed performance audit, *Kansas Use Law: Reviewing Issues Related to the Quality and Price of Goods and the Compensation of Executives*.

The report includes three recommendations for the Division of Purchases. The first calls for Division staff to require vendors to use a standard reporting format for the annual report. The second calls for Division staff to ensure that several steps are taken before waivers from the Program are approved. The third calls for Division staff to begin tracking complaints about the Program. We would be happy to discuss these recommendations or any other items in the report with you at your convenience.

If you would like a copy of the full audit report, please call our office and we will send you one right away.

A handwritten signature in black ink that reads "Barbara J. Hinton". The signature is written in a cursive, flowing style.

Barbara J. Hinton
Legislative Post Auditor

EXECUTIVE SUMMARY
LEGISLATIVE DIVISION OF POST AUDIT

Overview of the State Use Law Program

State law requires State agencies and school districts to purchase goods and services from non-profits benefiting the blind and disabled. *However, the law allows a State agency or school district to get a waiver if the vendor is unable to supply the product or service. Vendors must meet certain requirements before they can become qualified, including having the primary purpose of employing people who are blind or disabled.* page 3

The Director of the Division of Purchases approves both the products and services for the Program, and the prices that appear in the State Use catalog each year. Products offered through the catalog must be processed or manufactured in Kansas.

Several amendments were made to the State Use Law in 2005. The Program was transferred from SRS to the Division of Purchases, vendors now are required to publish an annual report of product sales under the Program, and a nine-member State Use Law Committee was created to serve in an advisory capacity to the Director of Purchases.

Question 1: What Has Happened to the Quantity of Goods and Services Public Entities Have Purchased From Non-Profits Benefiting the Blind or Disabled in Recent Years?

The amount of products and services purchased under this Program increased by about \$632,000 between fiscal years 2006 and 2007. *Total purchases increased from \$5.7 million in fiscal year 2006 to \$6.3 million in 2007. The Legislature added a requirement in 2005 that qualified vendors begin publishing an annual report. All sales contained in the annual report are self-reported by the State Use vendors. The vendors aren't using a standard format for reporting the amount of products and services sold under the Program.* page 7

According to the annual report, the amount of products and services purchased by State agencies remained relatively constant between fiscal years 2006 and 2007. State agency purchases increased from \$4.2 million in fiscal year 2006 to about \$4.4 million in fiscal year 2007, a 4% increase. State agencies account for more than 80% of the sales.

School districts' purchases of State Use Law products and services increased by 85% between fiscal year 2006 and 2007. School district purchases increased from nearly \$553,000 in fiscal year 2006 to more than \$1.0 million in 2007.

Three of the 10 qualified vendors--Cartridge King, Envision, and KETCH--accounted for 91% of all sales reported by qualified vendors in fiscal years 2006 and 2007.

In all, 60 waivers totaling more than \$11,000 were granted in fiscal years 2006 and 2007. During this time period, only three were denied. A waiver is available for a specific transaction. School district officials haven't been submitting waiver requests to the Division of Purchases because they aren't under his authority.page 10

Question 1 Conclusion. The number of products and services State agencies and school districts bought under the State Use Law Program increased over the two years we reviewed by 11%. Sales to school districts increased dramatically, which may be a result of increased efforts to market the products to school districts. We noted improvements are needed in a few areas to strengthen the administration of the Program.page 11

Question 1 Recommendations for Executive Action. The Director of Purchases require all vendors to use the same format for reporting sales data related to the State Use Program, and that Division of Purchases staff make sure that agencies fill out and submit the waiver request form before they buy the item.page 11

Question 2: What Concerns Do Those Required To Purchase Goods Under the Kansas Use Law Have About Price and Quality of the Products, and What Steps Have the Director of Purchases and the State Use Law Committee Taken To Address Those Concerns?

About a third of survey respondents rated the quality of State Use products as fair or poor, and rated the prices as more expensive than other options. We surveyed 238 State procurement officers and 25 school districts about their satisfaction with the products and services offered under the Program. Most concerns survey respondents complained about were related to toner cartridges, pens/pencils, and binders.page 13

The Division of Purchases takes little action in tracking or handling complaints. Division of Purchases staff don't track or record complaints about the State Use Program. They told us they try to address concerns as they are raised.page 14

The State Use Law Committee recently formed a subcommittee to look at pricing issues. The prices of State Use products and services aren't supposed to be the lowest, but they should be competitive.page 15

Some State Use products and services were more expensive, while others were the same or less than State contract prices. To determine how the prices of State Use products and services compared with other contracted State vendors, we chose four products and a service from the State Use catalog. As the figure on the next page shows, the results of our comparison were mixed.page 16

Figure 2-2 Price Comparison of State Use Products and Services to State Contracts for Products and Services				
Description	State Use Price	State Contract Price	Amount State Use Item Is More or (Less)	Percent State Use Item Is More or (Less)
Products				
Soft grip, ballpoint stick pen (medium ink, black)	\$6.00 / dozen	\$4.29 / dozen	\$1.71	40%
3-Ring Binder (2", 8.5x11, black)	\$4.93	\$3.76	\$1.17	31%
Toner Cartridge (Laser printer, 6000 page yield, model 2300)	\$115 (new)	\$115 (new)	\$0.00	0%
Nameplate (2" x 8')	\$7.50	\$10.18	(\$2.68)	(26%)
Services				
Document Shredding (300 lbs)	\$.15 / lb	\$.10 / lb (a)	\$.05 / lb	50%
Document Shredding (200 lbs)	\$.15 / lb	\$.125 / lb (a)	\$.025 / lb	20%
Document Shredding (100 lbs)	\$.15 / lb	\$.20 / lb (a)	(\$.05 / lb)	(25%)
(a) The contract price was based on a flat rate. We converted it to a price per pound, but if an agency uses fewer pounds than the flat rate allows, the agency is paying a price per pound that is more than we calculated.				
Source: Vendor product catalog, Corporate Express website, and Shred-It contract				

Question 2 Conclusion. *Survey respondents reported concerns with price and quality of State Use Law products. Because Division of Purchases staff don't track complaints they receive about State Use products and services, they can't look for trends to see which products or services are most frequently complained about. If staff tracked this information, they could provide it to State Use vendors as suggestions for how to improve their products and services, which also would benefit State agencies and school districts by producing better quality products.*

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Question 2 Recommendations for Executive Action. *We recommend that the Director of Purchases put a process into place that will allow staff to track formal and informal complaints about the State Use Program from the date received until the date resolved.*

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Question 3: How Do the Salaries of the heads of the Non-Profit Agencies Who Are Qualified Vendors Under the State’s Use Law Compare With the Salaries of the Heads of State Agencies required to Purchase Their Products?

Most heads of qualified State Use vendors are paid a higher salary than comparable State agency heads. page 19
We made comparisons based on two measures—the number of positions overseen and 2006 total expenditures. Six of the seven vendors’ salaries ranked either first or second when measured against comparable-sized State agencies. Total State Use sales were a small percentage of most State Use vendors’ 2006 gross receipts.

These appendices can be found in the full report:

- APPENDIX A: Scope Statement** page 23
- APPENDIX B: Agency Response** (*The agency generally concurred with the report’s findings, conclusions, and recommendations. The agency expects to implement the recommendations we made.*) page 26

This audit was conducted by Amy Thompson and Lisa Hoopes. Chris Clarke was the audit manager. If you need any additional information about the audit’s findings, please contact Amy Thompson at the Division’s offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at LPA@lpa.state.ks.us.