

# State Printing Division

## Audit Highlights



Highlights of Legislative Auditor report on the State Printing Division, issued on September 10, 2002. Report # LA02-28.

### Purpose of Audit

The purpose of this audit was to determine if the State Printing Division established appropriate billing rates and inventory controls. This audit included a review of these activities for the 18 months ended December 31, 2001.

### Audit Recommendations

This report contained six recommendations to ensure billing rates are appropriate and to improve inventory controls. Specifically, the Division should monitor and revise billing rates in accordance with established policies and procedures. In addition, the Division needs to develop written policies and procedures for establishing and monitoring fixed-price and Quick Print job rates. Also, the Division should retain financial records in accordance with the state's record retention policy. Furthermore, the Division needs to develop policies and procedures to help ensure inventory is properly purchased and valued, and utilize its automated accounting system to manage inventory. Finally, policies and procedures are needed to ensure excess inventory sales are properly documented.

The Division accepted all six audit recommendations.

### Status of Recommendations

The State Printing Division submitted its 60-day plan for corrective action on September 24, 2002. According to the Division's plan, it expects to have all recommendations fully implemented on or before May 9, 2003. The Department of Administration's six-month report on the status of the recommendations is due on June 9, 2003.

## Department of Administration

### Results in Brief

By not billing state agencies at rates sufficient to recover costs, the State Printing Division lost approximately \$450,000 from operations during the 18 months ended December 31, 2001. In our prior audit, we recommended the Division develop procedures to establish and monitor billing rates to ensure the rates cover the cost of doing work. Although some procedures were developed, they are incomplete and not always followed. Furthermore, policies and procedures to control the acquisition and valuation of inventory have not been documented. Therefore, the Division is at risk of purchasing more inventory than necessary and failing to recover all production costs. The lack of inventory controls also resulted in the Division's failure to comply with rules for disposing of property no longer needed and considered excess.

### Principal Findings

Printing Division hourly billing rates were not sufficient to recover the costs of providing printing services to state agencies. As a result, the Division was unable to recover approximately \$450,000 in labor, equipment, and other operating costs during the 18 months ended December 31, 2001. Furthermore, the Division did not retain documentation supporting the development of rates. Therefore, the Division did not have assurance rates were based on reasonable estimates.

The Division did not follow its procedures for monitoring the appropriateness of hourly billing rates. The procedures also instructed staff to adjust the hourly rates quarterly if necessary. Despite these procedures, rates went unchanged from June 1999 to May 2001, when they were increased by 5%. This increase was seen as a temporary solution, and was not based on an analysis of costs.

Routine printing jobs such as business cards and letterheads were billed from a fixed-price schedule developed in July 1999. However, the Division did not monitor these jobs to ensure the rates were appropriate. Our examination of selected jobs showed the Division did not always recover costs.

Although the Division tracks revenue for photocopy services (Quick Print), it has not developed procedures to identify all Quick Print expenditures. Therefore, the Division cannot determine if Quick Print's billing rates recover costs. We estimate Quick Print broke even in fiscal year 2001. However, the Division might not recover its costs in fiscal year 2002 since costs have increased but the rates have not been raised since April 1999.

The Division's inventory purchases totaled approximately \$1.4 million during the 18 months ended December 31, 2001. However, policies and procedures have not been documented to control the acquisition of inventory. As a result, the Division has experienced significant fluctuations in the amount of inventory on hand. Excessive inventory reduces available funding and can result in spoiled or obsolete inventory.

The Division does not effectively use its automated accounting system to help ensure the appropriate amount of inventory is purchased. Although this system provides four reports to control inventory, the Division uses only one of these reports. Expanded use of the systems capabilities will help ensure inventory is purchased only when necessary and in economical quantities.

The Division sold surplus paper inventory to a commercial vendor in January 2001. However, the Division did not obtain the Purchasing Division's written approval to sell excess inventory as required by state policy. In addition, the Division did not have documentation supporting the solicitation of bids. Finally, the Division did not receive payment until March 2002, when we requested documentation supporting the sale. As a result, we could not determine if the \$4,000 payment received was appropriate since the inventory was purchased for approximately \$30,000.