CITY AUDITOR'S OFFICE

Printing and Graphics Services

April 7, 2011 **AUDIT REPORT NO. 1109**

CITY COUNCIL
Mayor W.J. “Jim” Lane
Lisa Borowsky
Suzanne Klapp
Vice Mayor Robert Littlefield
Ron McCullagh
Linda Milhaven
Dennis Robbins

April 7, 2011

Honorable Mayor and Members of the City Council:

Enclosed is the audit report, *Printing and Graphic Services*, Audit No. 1109. This audit was included on the Council-approved fiscal year 2010/11 audit plan.

The audit found that the Graphics & Printing Solutions (GPS) department has non-cancelable leases for equipment that is being underused, and GPS rates do not fully recover the department's costs. In addition, the City has a non-cancelable lease agreement for copiers that are generally not used to capacity. We also found that postage costs for large volume mailings could be directly charged to departments to encourage savings.

We would like to thank staff from the Graphics & Printing Solutions department for their cooperation throughout the audit, as well as the Finance & Accounting Division staff.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

Sharron Walker

Sharron Walker, CPA, CFE
City Auditor

Audit Team:

Lisa Gurtler, Assistant City Auditor
Lee Pettit, Senior Auditor
Erika Keel, Auditor

TABLE OF CONTENTS

Executive Summary 1

Background 3

Objectives, Scope and Methodology 7

Findings and Analysis 9

1. GPS is locked into leases for equipment that is being underused due to use of external vendors and a citywide reduction in demand. 9

2. Print and Graphics rates do not recover costs 12

3. Leased citywide copier use is substantially below vendor recommended volumes, and cost adjustments are not charged to the appropriate departments. 15

4. Postage is not charged to most user departments, but the Water Fund has been overcharged 17

Action Plan 19

Appendix A – Examples 23

Appendix B – Existing Rates vs. Cost Recovery Rates 27

EXECUTIVE SUMMARY

This audit of *Printing and Graphics Services* was conducted in accordance with the Council-approved FY 2010/11 audit plan. The objective was to examine the cost and utilization of the City's internal printing and graphics services, including a cost comparison with outside vendors. In addition, we assessed the related citywide copier usage and costs. The audit scope included fiscal years (FY) 2007/08 through the first six months of FY 2010/11.

The City's Graphics and Printing Solutions (GPS) department, part of the Administrative Services Division, performs graphic design, printing and CD duplication. Additionally, the department manager administers the citywide copier contract that provides 148 leased copiers throughout the City. During the last three fiscal years, the City's total print and graphics expense has steadily declined from $1.5 million in FY 2007/08 to $882,000 in FY 2009/10. In the current year, it appears print and graphics use may decline by another 9%.

While GPS has non-cancelable leases for equipment that is being underused, more than half of the City's printing and graphics is being performed by external vendors. Although GPS provides cost-reimbursable services to departments, it has not been established as an internal service provider and departments are not required to use its services. GPS rates do not fully recover the department's costs, and some rates have not been updated for more than ten years.

Leased citywide copier use is substantially below vendor recommended volumes. Since implementation of the new copier lease agreement in January 2010, 125 of the City's 148 copiers were used at less than 50% of the model's capacity. Additionally, charges for over/under usage are allocated to all departments with copiers, rather than based on actual usage.

While conducting this audit, we also noted that with the exception of the Water Fund, postage is budgeted and paid for through the Mail Services department rather than being charged to user departments. Charging departments for large volume mailings could encourage savings. The Water Fund was both directly charged for its utility bill postage and allocated a percentage of Mail Services costs.

BACKGROUND

The City's Graphics & Printing Solutions (GPS) department, part of the Administrative Services Division, performs graphic design, printing and CD duplication. Additionally, the department manager administers the citywide copier contract, which provides 148 leased copiers throughout the City.

During the last three fiscal years, citywide print and graphics expenses have steadily declined from $1.5 million in FY 2007/08 to $882,000 in FY 2009/10, as reflected in Table 1. In the current year, it appears print and graphics use may decline by another 9%. User departments indicated citywide cost-saving initiatives, coupled with electronic communication methods, have contributed to the decline. For example, fewer senior newsletters are printed, and they are now available online; youth and sports program notifications are now printed twice a year rather than three to four times a year; and the Scottsdale Pride newsletter has been discontinued. In addition, the GPS Manager noted departments have reduced the quantity of letterhead and business cards ordered in an effort to reduce costs and due to reduced staffing levels.

Table 1. Citywide Printing and Graphics Expenses - Internal vs. External

Provider	FY 2007/08		FY 2008/09		FY 2009/10		6 months FY 2010/11	
External*	$1,107,819	76%	$581,625	59%	$472,163	54%	$207,282	51%
Internal - GPS	348,333	24%	402,273	41%	409,852	46%	196,413	49%
Total	**$1,456,152**	100%	**$983,898**	100%	**$882,015**	100%	**$403,694**	100%

*To avoid duplication, this expense is net of GPS payments for external services that are subsequently charged back to user departments.

SOURCE: Auditor analysis of SmartStream financial reports and data provided by GPS management.

During this time, more than half of the City's printing and graphics services were performed by external vendors. However, GPS has increased its share, from only 24% in FY 2007/08 to 46% of the work in FY 2009/10. This increase is attributed to GPS updating its printing equipment in December 2008.

City departments can submit print or graphics job requests using the Online Graphics Requisition system maintained by the Finance & Accounting Division technology staff, but some request services by phone or email. GPS may directly provide the requested services or may use an outside vendor. This occurs primarily due to the need for specialized equipment, user department preference for a particular style or document size, or a rush delivery date that GPS cannot meet. Additionally, because departments are not required to use GPS, some bypass GPS and directly submit their work to outside vendors.

Staffing and Budget

Reporting to the Purchasing Director within Administrative Services, GPS had four staff in calendar year 2010: the Manager, who also oversees Mail Services; a Graphics Designer;

and two Senior Graphics Technicians. A Senior Graphics Technician retired in December 2010; this position is currently being held vacant, but is included in the proposed FY 2011/12 budget.

As shown in Table 2, the department's FY 2009/10 costs of about $807,000 primarily consisted of personnel, payments for external printing and graphics services, leased equipment and commodity purchases, such as paper and toner. Major equipment leases include a Xerox spot color printer and two IKON full color printers. In addition, GPS owns a color poster/banner printer and a disk maker.

Table 2. GPS Department Costs

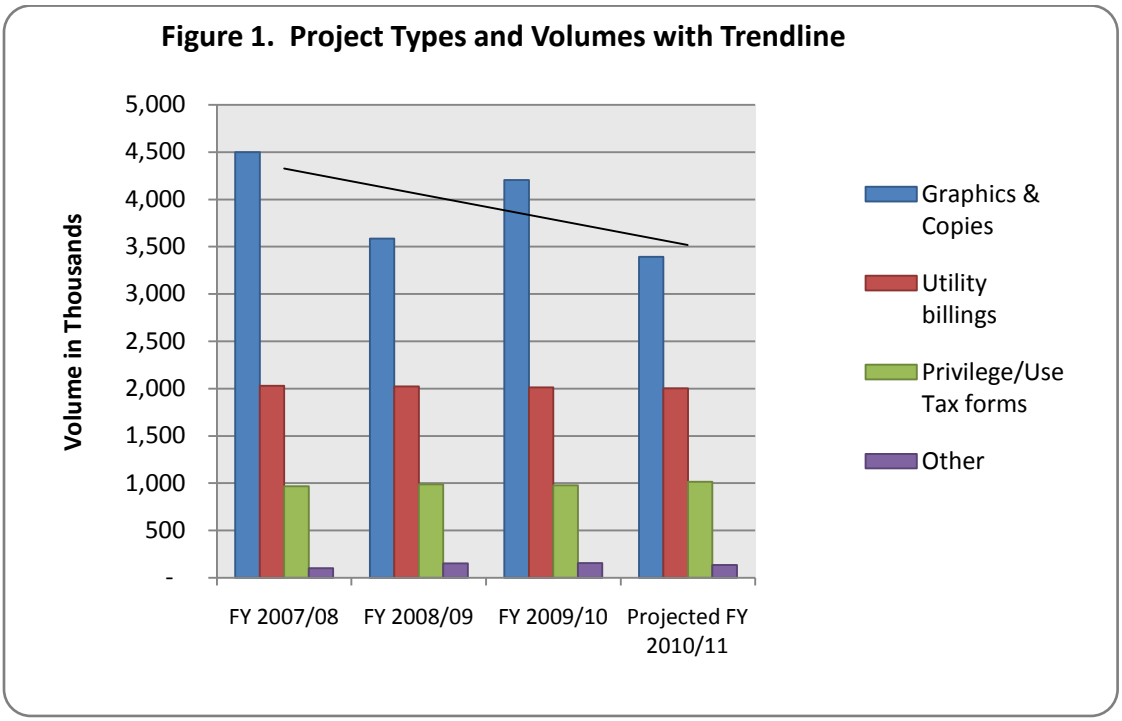
Cost Category	FY 2007/08	FY 2008/09	FY 2009/10	6 months FY 2010/11
Personnel Services	$266,668	$238,447	$240,105	$115,383
Printing & Graphics Services (external vendors)	508,802	271,799	222,679	64,189
Leased Equipment	180,570	256,470	214,973	134,866
Commodities	83,657	70,489	111,166	55,595
Other Contractual Services	14,892	11,057	18,043	7,357
Total	**$1,054,589**	**$848,262**	**$806,966**	**$377,390**

SOURCE: Auditor analysis of SmartStream financial reports.

City departments that use GPS services are charged for their specific jobs based on GPS established rates and volume. When GPS uses an outside vendor to complete a job request, the user department is charged the vendor cost plus a GPS markup, typically 15%. Some jobs involve both GPS and external vendors, such as when GPS prints a job internally but sends it to an external vendor for binding.

GPS measures a job's volume by the number of impressions, or machine "clicks". Figure 1, on page 4, shows the types of work performed and the estimated volume of impressions.[1] The Graphics & Copies category, which represents the largest volume, includes printing Council packets, brochures, booklets, stationary and business cards. Monthly utility billings make up the second largest volume of impressions.

[1] Actual impression counts for Graphics & Copies in fiscal years 2007/08 and 2008/09 and for some "Other" types in each fiscal year were not readily available and were based on information provided by the GPS Manager.



SOURCE: Auditor analysis of vendor provided usage reports, Online Graphics Requisition system data and some estimated counts provided by the GPS Manager.

GPS management was concerned that City staff was overusing department copiers for large volume copying rather than using GPS services. Therefore, copier use was included in this audit. The GPS Manager serves as the contract administrator for the citywide lease, which expires in December 2015, for the City's 148 multifunction copiers. Departments are charged a fixed monthly amount based on the particular model(s) they have.

OBJECTIVES, SCOPE AND METHODOLOGY

This audit of *Printing and Graphics Services* was conducted in accordance with the Council-approved FY 2010/11 audit plan. The objective was to examine the cost and utilization of the City's internal printing and graphics services, including a cost comparison with outside vendors. In addition, we assessed the related citywide copier usage and costs. The audit scope included fiscal years (FY) 2007/08 through 2010/11 (first six months ended December 2010).

The Graphics & Printing Solutions (GPS) department within the Administrative Services Division provides some of the City's printing and graphics services. To gain an understanding of GPS, we reviewed the:

- City's Budget Book for FY 2007/08 through FY 2010/11 and the Purchasing Director's budget presentation to the Budget Review Commission in April 2010.
- GPS rate development process and supporting documentation, and equipment lease agreements for the spot and full color printers.
- State of Arizona contract used for leasing copiers.

We also interviewed the GPS Manager, the Purchasing Director and Budget and Accounting staff regarding GPS related policies and processes. To understand the Online Graphics Requisition system, we interviewed the supporting Systems Integrator and the Financial Services Technology Director. We also interviewed the Graphic Design Coordinator, part of the Information Technology division, regarding his involvement with projects sent to GPS.

To examine the citywide cost and utilization of printing and graphics services, we analyzed activity during FY 2009/10 and FY 2010/11 through December 2010. Specifically, this included:

- Using the SmartStream financial system and the Online Graphics Requisition system to analyze print and graphics charges for internal and external services.
- Calculating cost recovery print and graphics rates using actual equipment volumes (impressions) and contracted capacities, material costs and labor distribution information provided by the GPS Manager. We also performed a price comparison of these calculated cost-recovery rates to four outside vendors' publicly available rates.
- Analyzing a sample of external print and graphics jobs to determine why the work was not completed in-house, and comparing vendor prices to existing GPS rates and the calculated cost-recovery rates.
- Comparing GPS equipment usage to the contracted volumes.
- Reviewing the GPS August 2010 cost study for printing Council packets.

To assess the City's copier usage and costs, we compared the vendor-stated machine capacities to actual usage for January 2010 to November 2010, and we reviewed the cost allocation method.

Based on these audit procedures, we determined that GPS has non-cancelable leases for equipment that is being underused, and GPS rates do not fully recover the department's

costs. In addition, the City has a non-cancelable lease agreement for copiers that are generally not used to capacity. Cost adjustments for copier over- or underuse are allocated to all departments with copiers rather than based on actual usage. In addition, postage costs for large volume mailings could be directly charged to departments to encourage savings.

We conducted this audit in accordance with generally accepted government auditing standards as required by Article III, Scottsdale Revised Code, §2-117 et seq. As required by generally accepted government auditing standards, we planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Audit work took place from January through March 2011, with Lisa Gurtler, Lee Pettit and Erika Keel conducting the work.

FINDINGS AND ANALYSIS

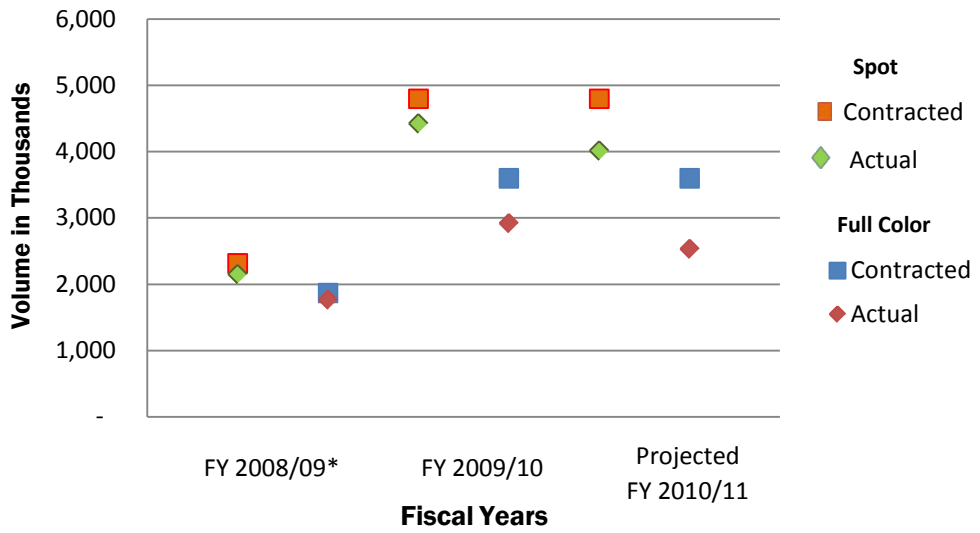
1. GPS is locked into leases for equipment that is being underused due to use of external vendors and a citywide reduction in demand.

While Graphics & Printing Solutions (GPS) entered into long-term equipment leases, print and graphics service demand is declining. In addition, both GPS and City departments send print and graphics jobs to external vendors.

A. In December 2008, GPS leased major printing equipment using a contract that does not contain a cancellation for convenience clause.

The annual lease payment of $215,000 was based on the City's projected usage and incorporated into the contract. Printer use is measured by the number of impressions or machine "clicks," and the City's lease agreement allows a fixed volume before additional costs are incurred. Actual use has been less than the contracted volumes, as shown in Figure 2.

Figure 2. Comparison of Actual to Contracted Usage, by Leased Printer Type



* Volumes reflect approximately half a fiscal year of usage as equipment was implemented in December 2008.

SOURCE: Auditor analysis of contracted impressions and vendor provided usage reports.

Based on the actual number of impressions, the spot printer, used primarily for utility billings, sales tax forms, and City Council packets, has been underused by 7 to 16% over the last 3-1/2 years. The two full color printers, used for various jobs such as publications and brochures, have been underused by 5 to 30% during the same time period.

The lease agreement, which will expire in December 2013, can only be canceled for cause, not for convenience as is the standard for most City equipment contracts. According to the Purchasing Director, it has become a normal practice to remove the "cancellation for convenience" clause from equipment leases to improve vendor pricing and increase competition for the City's business.

B. Despite having available leased equipment, more than half of the City's printing and graphics costs are for external vendors.

As shown in Table 3, during the last 3-1/2 fiscal years, the City paid approximately $2.4 million to external vendors, or 64% of total printing and graphics costs.

Table 3. Citywide Printing and Graphics Costs, by Provider Type

Provider	FY 2007/08	FY 2008/09	FY 2009/10	6 months FY 2010/11	Total	
Departments - External	$606,187	$318,411	$257,265	$144,974	$1,326,837	56%
GPS - External	501,632	263,214	214,898	62,308	1,042,052	44%
External Vendors	**1,107,819**	**581,625**	**472,163**	**207,282**	**2,368,889**	**64%**
Internal - GPS	**348,333**	**402,273**	**409,852**	**196,413**	**1,356,871**	**36%**
Total	**$1,456,152**	**$983,898**	**$882,015**	**$403,694**	**$3,725,759**	**100%**

SOURCE: Auditor analysis of SmartStream financial reports and data provided by GPS Management.

While City departments bypass GPS and send some work to external vendors, GPS also sends work out. Of the external vendor use, departments sent out 56% of the total, while GPS sent out 44%, as shown in Table 3 above.

Currently, limited information is available to determine why a job was sent externally by GPS or another department. The Online Graphics Requisition form does not include a space to note the reason a job was sent externally. Further, departments are not required to use GPS or the online requisition form.

Review of 15 print jobs that City departments sent to external vendors found that all but one were due to the need for specialized equipment, such as metal street signs or printing on tote bags. However, analysis of 25 jobs print jobs that GPS sent to external vendors found that:

- 12 jobs (48%) could have been completed by GPS with minimal modifications at a potential savings of about $9,000.[2] Reasons for sending work outside primarily related to the user department's preference for a particular style or document size, or a rush delivery date that GPS could not meet. Examples of these jobs, as shown in Appendix A, include:

[2] These cost comparisons were based on actual vendor pricing and auditor-calculated cost recovery rates.

a. A Human Services booklet was sent externally due to the requestor's preference for borderless pages and rush delivery date. Printing this brochure (Appendix A, Figure A) internally with a standard ¼ inch border would have cost $1,900 less, an 83% savings.

b. The Fire Department's "Five Years in Review" booklet (Appendix A, Figure B) was sent externally due to a perception of the quality of the in-house sample booklet. For a difference that appeared negligible, the internal booklet could have saved $1,900, or 71% less than the external cost.

c. A Diversity Advisory Committee booklet (Appendix A, Figure C) was sent externally because of its non-standard size and rush delivery date. Adjusting the design for a standard size that could be printed internally could have saved $569, or 57%.

d. An After School Program cookbook (Appendix A, Figure D) was sent externally due to the department's preference for coil binding. Saddle stitch (center staple) binding could have saved more than $500, or 32%.

e. A Scottsdale Stadium brochure (Appendix A, Figure E) was completed externally due to the non-standard 4-fold and water resistant coating. With a tri-fold design and no coating, this brochure could have been completed internally on similar paper stock for $500 less, or 64% savings.

- Nine of the 25 print jobs (36%) were appropriately sent to external vendors due to requiring specialized equipment (e.g., multi-copy forms, door hangers).
- The City realized savings of about $16,000 for 4 of the external print jobs (16%), primarily due to large volumes. Based on our limited testing, external vendors generally had a lower unit cost for print jobs exceeding 13,000 copies.

Using external vendors when GPS can perform the work in-house contributes to the leased equipment being underused. Also, not requiring use of the Online Graphics Requisition system limits the readily available data for analyzing whether it would be cost-effective to maintain an in-house print and graphics function.

C. GPS has not been established as an internal service provider although it provides cost-reimbursable services.

According to the Budget Book, the City uses Internal Service Funds to account for programs that provide services to other programs or departments on a cost-reimbursement basis. Although meeting the definition of providing reimbursable services, GPS is not treated as an Internal Service Fund, and City departments are not required to use its services.

For the period of time that the City is locked into printer equipment leases, it is beneficial to maximize their use for necessary print jobs. This can be

accomplished by establishing GPS as a required internal service provider accounted for in an Internal Service Fund. However, with trends toward electronic publishing and declining print volumes, a formal alternative service delivery analysis is needed to fully evaluate whether to extend the equipment leases when they expire in December 2013.[3] Such an analysis would need to be conducted during the FY 2013/14 budget planning prior to the lease expiration.

Recommendation:

Administrative Services management should:

A. Develop a policy for City Manager approval to temporarily establish GPS as a required Internal Service provider while the City has these equipment leases. The GPS Manager should only send print jobs to external vendors based on critical factors, such as:
   - Calculated cost-benefit for the City.
   - Specialized job requests that cannot be modified for in-house capabilities.
   - Necessary due dates that GPS cannot meet and that cannot be adjusted.

B. Ensure all print and graphics requests are recorded in the Online Graphics Requisition system. In addition, the Online Graphics Requisition form should be revised to require GPS staff to identify the reason a project is sent externally (e.g., lower unit cost, insufficient lead time, need for specialized equipment).

C. Consider requesting that an Internal Service Fund be established to account for GPS costs and reimbursements. Further, in accordance with the City's Comprehensive Financial Policies, Administrative Services should ensure an alternative service delivery evaluation is completed during FY 2013/14 budget planning.

2. Print and Graphics rates do not recover costs.

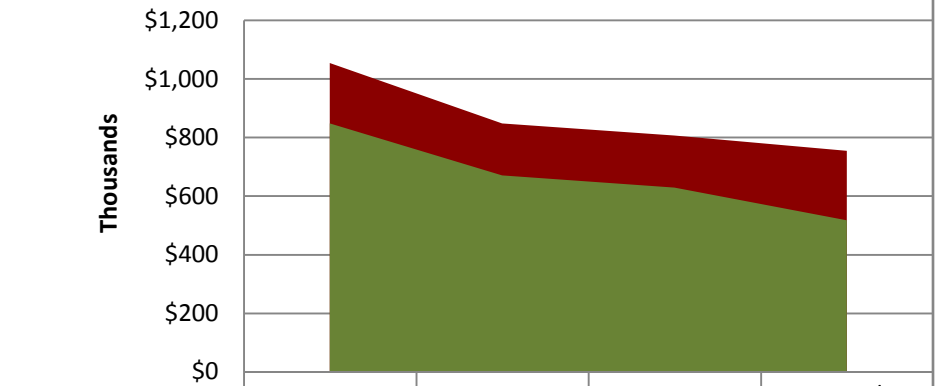
Currently GPS operates as a hybrid operation, expected to recover its costs but not designated as an internal service or required provider. Because GPS provides reimbursable services to City departments, it should operate as an Internal Service Fund and be required to sustain its operations from charges to its customers.

GPS costs are initially paid from the General Fund, and then charged to City departments using the services. This results in GPS costs being recovered from other departments' budgets, which sometimes involves other funds such as the Enterprise Funds.

[3] Comprehensive Financial Policy No. 16 requires periodic evaluation of alternative service delivery means.

A. Historically, GPS rates have not been sufficient to recover costs.

During the last 3-1/2 fiscal years, GPS costs have exceeded departmental charges, as illustrated in Figure 3.



	FY 2007/08	FY 2008/09	FY 2009/10	FY 2010/11 Projected
GPS Costs	1,054,589	848,262	806,966	754,780
User Dept Charges	848,403	670,853	629,222	517,524

SOURCE: Auditor analysis of SmartStream financial reports.

Unrecovered costs have totaled approximately $680,000 over this 3-1/2 year period, partly due to GPS rates not being periodically reviewed for adequacy.

Some GPS rates, such as those charged for Council packets, have been in place for more than 10 years; others were adjusted slightly in December 2008 when GPS leased the new print equipment. According to GPS management, the rates have not been intended to recover costs. Rather, rates were kept low to encourage usage of the GPS services rather than copy machines.

Using actual volumes and costs, and material and labor distribution information provided by the GPS Manager, auditors developed cost-recovery based rates. As shown in Table 4 on page 12, GPS does not charge enough for black and white copies and recurring jobs such as utility billings and Council packets, which also represent the largest volumes of work. In contrast, GPS charges too much for color copies and business cards.

Table 4. Existing GPS Rates vs. Cost Recovery Rates

Service	Unit	Existing Rates	Cost Recovery Rates	Over (Under) Priced
Black/White, One-Sided - 8.5 x 11	Sheet	$0.05	$0.08	($0.03)
Black/White, Two-Sided - 8.5 x 11*	Sheet	$0.08	$0.14	($0.06)
Color, One-Sided - 8.5 x 11	Sheet	$0.13	$0.11	$0.02
Color, Two-Sided - 8.5 x 11	Sheet	$0.22	$0.19	$0.03
Business Cards (250)	Box	$16.40	$8.06	$8.34
Other Services:				
Billings (utility, sales tax license, etc.) –two- sided	Sheet	$0.10	$0.11	($0.01)
Council Packet – black/white, two-sided*	Sheet	$0.10	$0.12	($0.02)
Council Packet – color, two-sided	Sheet	$0.10	$0.19	($0.09)

* The full color printer and spot printer each have different unit costs. Black/white copies are generally printed 50% on the spot printer and 50% on the full color printer; Council packets are printed 85% and 15%, respectively.

SOURCE: Auditor analysis of actual volumes and cost, and material and labor information provided by the GPS Manager.

B. The Enterprise Funds have been undercharged by about $50,000 during the last 2-1/2 fiscal years.

While the cost-recovery rate for printing utility bills should be $.11 per bill, GPS has charged $.10 each. Based on the number of utility bills printed since it began this service in July 2008, GPS has undercharged the Enterprise Funds by approximately $20,000 per year, for a total of about $50,400 by December 2010. Prior to this, the Information Technology Division printed the utility bills, and the Enterprise Funds were not charged directly for the service.

C. Existing GPS rates do not provide a good basis for decision making.

Because they were not developed to achieve cost recovery, current GPS rates can result in inaccurate analysis and decisions. For example, in August 2010, GPS estimated its cost to print a moderate-sized Council packet at $683. This was $690 less than the vendor's quote of $1,373, indicating a significant cost savings. However, based on cost recovery rates, this packet actually costs about $1,842 to print, which is $469 more than the vendor quote.

In this instance, the decision to retain the work in-house would not have changed. The vendor noted that the required same day service "is almost impossible and a difficult task" due to the proof approval required by City staff prior to printing the product. The GPS Manager stated that her department, in coordination with City Clerk staff, typically prepares 2 to 5 proof revisions and the final product all within the same day.

Recommendation:

Administrative Services management should:

A. Require GPS rates to at least recover the direct and indirect costs of services provided.
B. Determine whether previously unrecovered utility bill printing costs can be recovered from the Enterprise Funds.
C. Ensure that internally performed cost studies use a cost recovery approach to support fully informed decision making. This should include requesting assistance or review by accounting or audit staff as necessary.

3. Leased citywide copier use is substantially below vendor recommended volumes, and cost adjustments are not charged to the appropriate departments.

The City has 148 leased copiers in service, consisting of 7 different models that all provide copy, print, scan and fax capabilities.[4] Differences between the models are largely due to copy speed and the number and size of paper trays provided. Eleven copiers have color capabilities in addition to the standard black and white copying or printing.

A. Most citywide copiers are used substantially less than the vendor-identified capacity.

From January to November 2010, 125 of the City's 148 copiers were used at less than 50% of the model's volume capacity. Further, as shown in Table 5, 74 copiers were used at less than 25% of the machine's capacity.

Table 5. Usage Analysis for Black/White Copiers

Model	Monthly Capacity	Average Monthly Capacity Utilized					Total
		1% - 25%	26% - 50%	51% - 75%	76% - 100%	> 100%*	
8001 LCT	35,000	-	-	3	1	-	4
MP6001	30,000	16	15	2	-	-	33
MPC5000/LCT	20,000	4	4	2	-	1	11
MP5001	20,000	-	6	1	-	-	7
MP5000/LCT	20,000	16	6	3	-	-	25
MP4000	10,000	27	15	5	2	-	49
MP2000	4,000	11	5	2	-	1	19
Total		**74**	**51**	**18**	**3**	**2**	**148**
% Total		**50%**	**34%**	**12%**	**2%**	**1%**	**100%**

* Usage for two black/white copiers exceeded the vendor identified capacity, operating at 122% and 154% respectively.

SOURCE: Auditor analysis of vendor Service Activity reports for the period of January 1, 2010 to November 30, 2010, and information provided by the GPS Manager for five copiers not reported by vendor.

[4] According to the most recent vendor-provided usage report for the period of January 2010 to November 2010.

Additionally, 8 of the 11 color copiers were used at less than 50% of the model's volume capacity, and 2 of those used at less than 25% of capacity. The GPS Manager, as the contract administrator, speculated that decreased use of copiers relates to cost-saving initiatives that include reducing paper costs.

In most instances, departments could be using lower volume more economical models that better coincide with their actual usage. Based on auditor calculations, the City would save over $115,000 annually if the underutilized copiers could be replaced. However, due to the existing 5-year lease's terms, the City is locked into the current configuration.

GPS management stated that when the copiers were leased through a state of Arizona contract in January 2010, copier models were selected based on department-requested features and their fiscal years 2008 and 2009 average use.[5] Management explained that the 5-year term provided the City with the most advantageous lease cost at the time.

B. Department cost adjustments are not based on actual copier usage, and overuse can be avoided.

The City uses a clearing account to pay for copier lease costs, and then recovers the costs through charges to the departments with copiers. Departments are budgeted and charged a fixed monthly amount based on their copier model(s). At fiscal year-end, any difference between the budgeted and actual lease cost is allocated to all departments that have copiers.

For one of the two copier leases in effect during calendar years 2008 and 2009, actual costs exceeded budgeted amounts by about $147,000, primarily due to exceeding contracted copy volumes. This year-end difference was allocated to all departments in proportion to their budgeted costs rather than to those departments with the high usage. The impact to individual departments could not be determined because the detailed usage reports were not retained.

Effective with the January 2010 lease agreement, the City has unlimited black and white usage, but pays for each color copy. The departments with the 11 color copiers were budgeted and charged a fixed monthly amount for copies. For the 2010 calendar year, usage reports revealed that these charges exceeded the actual usage costs, resulting in savings of $30,000. Using the current accounting practice, this savings is allocated to all departments with copiers, rather than to the departments with the 11 color copiers.[6]

Through further analysis of copier use, the GPS Manager, as contract administrator,

---

[5] Comparison of the lease agreement's termination penalty to the estimated savings of downsizing copiers (assuming the same lease rates would be provided) shows no advantage to paying the penalty to terminate the contract.

[6] The January 2010 – June 2010 (FY 2009/10) savings of $12,600 were allocated to all departments with copiers as part of the year-end balancing entry. The July 2010 – December 2010 (FY 2010/11) savings of $17,400 have not yet been allocated.

has an opportunity to help departments avoid exceeding volume limits, such as using GPS services or sharing low-use copiers. Additionally, proper allocation of costs and savings helps management to monitor their expenses and align their budget with actual usage.

Recommendation:

A. The GPS Manager, as contract administrator, should track actual copier usage to vendor recommended volumes and periodically report this information to the user departments to help avoid excess copier usage. Further, when the citywide copier lease expires in January 2015, more consideration should be given to projecting future trends of declining copier use.

B. Finance & Accounting management should ensure that color copier costs are allocated to the responsible departments using information provided by the GPS Manager.

4. Postage is not charged to most user departments, but the Water Fund has been overcharged.

Citywide, departments are generally not charged for their postage usage. Instead, postage is budgeted in the Mail Services department, with $469,000 budgeted in FY 2010/11. The exception to this practice was the Water enterprise fund, which pays for postage related to mailing utility billings. This cost was budgeted as $383,000 for FY 2010/11 and totaled $391,000 in FY 2009/10.

According to Finance & Accounting staff, the Water enterprise fund was the only department directly charged for postage. Other departments' use of postage is expensed directly to Mail Services; therefore departments are not aware of their actual postage costs. Effective January 2011, all Enterprise Funds are being charged for postage.[7]

As part of the year-end indirect cost allocation process in FY 2009/10, approximately 27% of the Mail Service's $799,000 department expense was allocated to all Enterprise Fund departments, or $216,000. Because postage is part of this expense, the Water enterprise fund was charged twice — its actual postage cost of $391,000 and an allocated share estimated at $70,000.

The practice of not charging departments directly for postage consumption and charging the Water Fund twice has been in place for several years. Recently Finance & Accounting staff reviewed this practice and is planning to directly charge postage to user departments. In particular, this approach would be warranted for large volume mailings where the department-specific tracking effort is reasonable. Additionally, Finance & Accounting has excluded Mail Services from the indirect cost allocation in FY 2011/12.

Recommendation:

Finance & Accounting management should charge postage costs directly to user departments for large volume mailings and adjust the Water Fund allocation for postage overcharges.

---

[7] The City's Enterprise Funds include the Water, Sewer, Solid Waste, and Aviation Funds.

ACTION PLAN

---

1. GPS is locked into leases for equipment that is being underused due to the use of external vendors and a citywide reduction in demand.

Recommendations:

Administrative Services management should:

A. Develop a policy for City Manager approval to temporarily establish GPS as a required Internal Service provider while the City has these equipment leases. The GPS Manager should only send print jobs to external vendors based on critical factors, such as:
   - Calculated cost-benefit for the City.
   - Specialized job requests that cannot be modified for in-house capabilities.
   - Necessary due dates that GPS cannot meet and that cannot be adjusted.

B. Ensure all print and graphics requests are recorded in the Online Graphics Requisition system. In addition, the Online Graphics Requisition form should be revised to require GPS staff to identify the reason a project is sent externally (e.g., lower unit cost, insufficient lead time, need for specialized equipment).

C. Consider requesting that an Internal Service Fund be established to account for GPS costs and reimbursements. Further, in accordance with the City's Comprehensive Financial Policies, Administrative Services should ensure an alternative service delivery evaluation is completed during FY 2013/14 budget planning.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

A. Administrative Services management will prepare for the City Manager's consideration a directive to temporarily establish GPS as the required printing service provider for all the City's printing needs. This would require City staff to utilize GPS for all printing needs and allow GPS to evaluate the best print production solution for getting the project completed utilizing the criteria referenced above for limiting work produced outside of the City.

B. Work with Information Technology and Finance & Accounting to initiate a project to update the Online Graphics Requisition system as noted. The timeline for completion will be subject to prioritization by these departments.

C. Consult with Finance & Accounting management regarding whether an Internal Service Fund should be established to separately account for all GPS costs and reimbursements. With the cooperation of the City Treasurer and City Auditor, Administrative Services management will conduct an alternative service delivery evaluation prior to FY 2013/14.

RESPONSIBLE PARTY: Administrative Services management, Finance & Accounting management and Information Technology.

COMPLETED BY:

A. May 1, 2011

B. Subject to project prioritization, but the request will be made by May 1, 2011

C. November 1, 2011 for the Internal Service Fund determination; March 1, 2013 for the alternative service delivery evaluation.

2. Print and Graphics rates do not recover costs.

Recommendations:

Administrative Services management should:

A. Require GPS rates to at least recover the direct and indirect costs of services provided.

B. Determine whether previously unrecovered utility bill printing costs can be recovered from the Enterprise Funds.

C. Ensure that internally performed cost studies use a cost recovery approach to support fully informed decision making. This should include requesting assistance or review by accounting or audit staff as necessary.

MANAGEMENT RESPONSE: Agree. The current service delivery model and rates were approved by prior City Management and have been in place for several years.

PROPOSED RESOLUTION:

A. Administrative Services management will work with Finance & Accounting management regarding the establishment of new cost recovery rates and also the suggestion regarding revising the current service delivery cost recovery model.

B. Based on any newly developed cost recovery rates, a re-determination will be made regarding any history of over/under charging and whether prior year adjustments are warranted.

C. Rates, going forward, will be reviewed periodically and upon any significant production cost changes to assure they represent the adopted service delivery model (i.e. full cost recovery or partial cost recovery).

RESPONSIBLE PARTY: Administrative Services and Finance & Accounting management.

COMPLETED BY: October 1, 2011

3. Leased citywide copier use is substantially below vendor recommended volumes, and cost adjustments are not charged to the appropriate departments.

Recommendations:

A. The GPS Manager, as contract administrator, should track actual copier usage to vendor recommended volumes and periodically report this information to departments with copiers to help avoid excess copier usage. Further, when the citywide copier lease expires in January 2015, more consideration should be given to projecting future trends of declining copier use.

B. Finance & Accounting management should ensure that color copier costs are allocated to the responsible departments using information provided by the GPS Manager.

MANAGEMENT RESPONSE: Agree. The analysis states that underutilization volumes related to the citywide copiers are below vendor recommendation. This is intentional, and is a typical scenario used for long term leasing to ensure the machines will maintain the performance standards that are needed for the full five year term of the contract; without becoming unreliable due to excessive servicing needs. The current individual machine sizing was based on four years of documented history from a prior period when the City did experience higher copier utilization.

PROPOSED RESOLUTION:

A. The Contract Administrator is currently provided a quarterly usage report for all of the machines by the vendor. Plus, on the monthly invoicing, the 11 color machines indicate the actual monthly color click usage and this is recorded and provided to Administrative Management Accounting staff by the Contract Administrator. The centers, which have color machines, are contacted, as needed, and a discussion takes place if they are over using the color click allotted amounts for each machine.

B. Administrative Services Management will work with the Finance & Accounting management regarding the manner in which to perform the fiscal year-end actual usage adjustment.

RESPONSIBLE PARTY: The assigned contract administrator for the City-wide Copier Contract (currently the GPS Manager), Administrative Services management, and Finance & Accounting management.

COMPLETED BY: September 1, 2011

4. Postage is not charged to most user departments, but the Water Fund has been overcharged.

Recommendations:

Finance & Accounting management should charge postage costs directly to user departments for large volume mailings and adjust the Water Fund allocation for postage overcharges

MANAGEMENT RESPONSE: Agree. Currently many "large volume mailings" (we will define as mailings costing over $1,000 in postage) are budgeted within a Mail cost center, in addition to the balance of postage for miscellaneous mailings. When a request is received in Mail, a determination is made as to whether it is a budgeted item. If it is a budgeted item, Mail processes the job and bears the cost of the job. If it is not a budgeted item, Mail notifies the originating division/department and requests a cost center to charge the job to.

PROPOSED RESOLUTION:

For the FY 2012/13 budget process Finance & Accounting staff will work with the Mail center staff to identify large print jobs currently budgeted within the Mail center. Once identified, the Mail center postage budget will be reduced by the identified amount and the division or

department receiving the benefit will have their line item budget for postage increased accordingly.

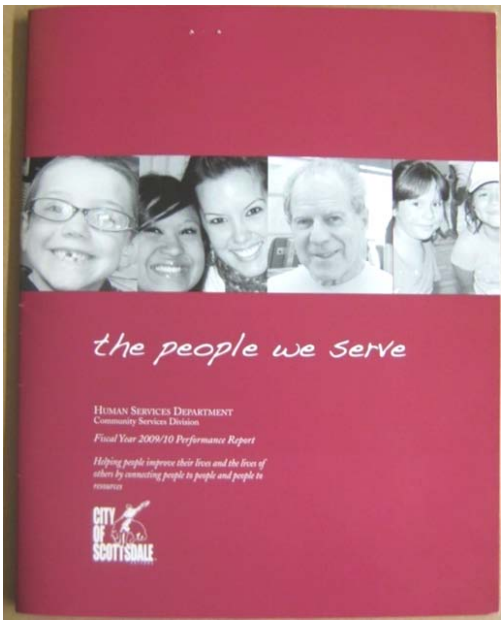
RESPONSIBLE PARTY: Finance & Accounting management and the GPS Manager.

COMPLETED BY: March 1, 2012

APPENDIX A – EXAMPLES

Unit costs of internally produced items are based on auditor-calculated cost recovery rates listed in Appendix B.

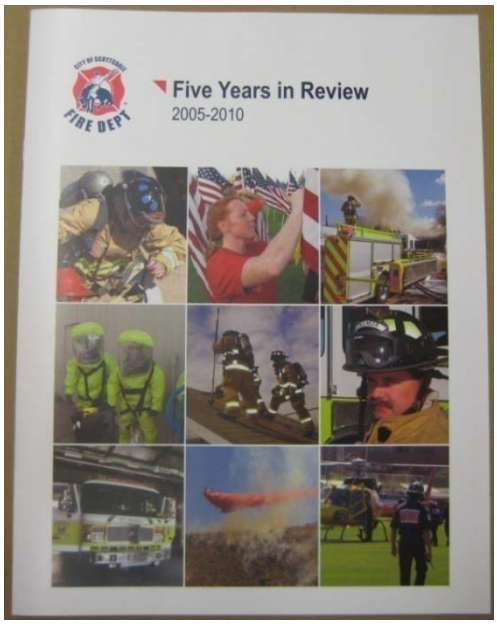
Figure A. Borderless vs. Borders



Actual item sent externally, unit cost of $11.20.

Sample internal product using ¼ inch borders, unit cost of $1.85.

Figure B. Print Quality



Actual item sent externally, unit cost of $5.42.

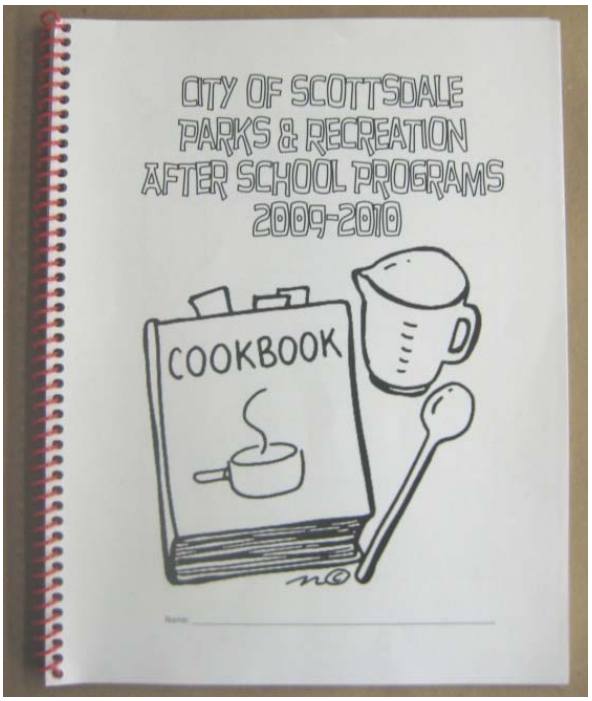
Internally produced sample, unit cost of $1.59.

Figure C. Non-Standard Size vs. Standard Size

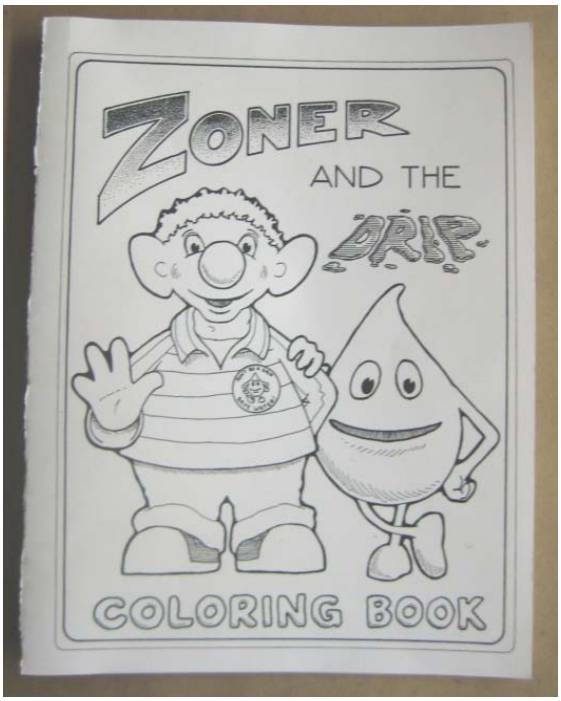
Actual item sent externally, unit cost of $2.01.

Internally produced sample using a standard size, unit cost of $0.87.

Figure D. Coil Binding vs. Saddle Stitching

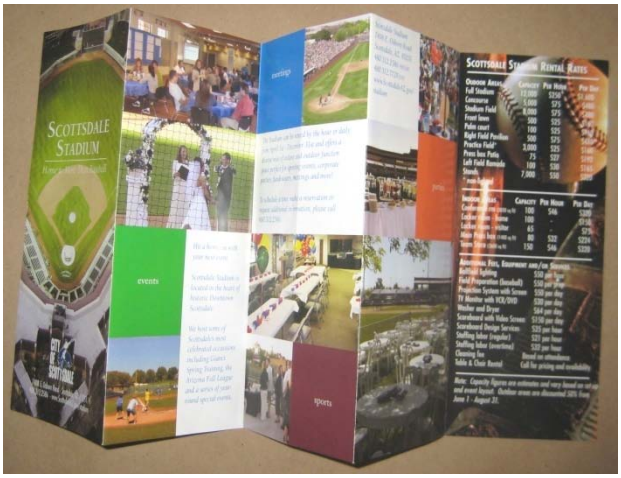


Actual item sent externally, unit cost of $2.98



Sample internal product with saddle stitching (staple in the middle), unit cost of $2.03.

Figure E. Special Fold vs. Standard Fold



Actual item sent externally, unit cost of $0.64.

Sample internal product in a tri-fold, unit cost of $0.26.

APPENDIX B – EXISTING RATES VS. COST RECOVERY RATES

Service	Unit	Existing Rate	Cost Recovery Rate	Over (Under)
Black/White, One-Sided - 8.5 x 11	Sheet	$0.05	$0.08	($0.03)
Black/White, One-Sided - 8.5 x 14	Sheet	$0.07	$0.08	($0.01)
Black/White, One-Sided - 11 x 17	Sheet	$0.08	$0.08	-
Black/White, Two-Sided - 8.5 x 11*	Sheet	$0.08	$0.14	($0.06)
Black/White, Two-Sided - 8.5 x 14	Sheet	$0.10	$0.14	($0.04)
Black/White, Two-Sided - 11 x 17	Sheet	$0.12	$0.14	($0.02)
Color, One-Sided - 8.5 x 11	Sheet	$0.13	$0.11	$0.02
Color, One-Sided - 8.5 x 14	Sheet	$0.17	$0.11	$0.06
Color, One-Sided - 11 x 17	Sheet	$0.19	$0.11	$0.08
Color, Two-Sided - 8.5 x 11	Sheet	$0.22	$0.19	$0.03
Color, Two-Sided - 8.5 x 14	Sheet	$0.29	$0.20	$0.09
Color, Two-Sided - 11 x 17	Sheet	$0.32	$0.20	$0.12
Business Cards (250)	Box	$16.40	$8.06	$8.34
Business Cards (500)	Box	$18.40	$10.78	$7.62
Business Cards (1,000)	Box	$36.80	$16.22	$20.58
Letterhead	Sheet	$0.16	$0.10	$0.06
Other Projects:				
Billings (utilities, sales tax license, etc.) – two-sided	Sheet	$0.10	$0.11	($0.01)
Council Packet – black/white, two-sided*	Sheet	$0.10	$0.12	($0.02)
Council Packet – color, two-sided	Sheet	$0.10	$0.19	($0.09)
Senior Center Newsletter	Sheet	$0.27	$0.20	$0.07
Job Bulletins	Sheet	$0.13	N/A	N/A
Poster	Sq. Ft.	$2.50	$3.43	($0.93)
Banner	Sq. Ft.	$3.00	$3.98	($0.98)
Poster Foam Core Mounting - 25 x 36	Board	$20.00	$17.95	$2.05
Poster Foam Core Mounting - 37 x 49	Board	$32.00	$33.22	($1.22)
Poster Foam Core Mounting - 41 x 61	Board	$36.00	$42.03	($6.03)
Basic Labor	15 mins.	$8.00	$8.01	($0.01)

* The full color printer and spot printer each have different unit costs. Black/white copies are generally printed 50% on the spot printer and 50% on the full color printer; Council packets are printed 85% and 15%, respectively.

N/A –Job Bulletins no longer printed after FY 2009/10; auditors did not calculate cost recovery rate.

Source: Auditor calculation of cost recovery rates using actual volumes and cost information provided by the GPS Manager.

City Auditor's Office
4021 N. 75th St., Suite 105
Scottsdale, Arizona 85251
(480) 312-7756
http://www.ScottsdaleAZ.gov
Search: "auditor"

Audit Committee
Vice Mayor Robert Littlefield, Chairman
Councilwoman Suzanne Klapp
Councilwoman Linda Milhaven

City Auditor's Office
Kyla Anderson, Senior Auditor
Joyce Gilbride, Assistant City Auditor
Lisa Gurtler, Assistant City Auditor
Erika Keel, Auditor
Joanna Munar, Senior Auditor
Lee Pettit, Senior Auditor
Sharron Walker, City Auditor

The City Auditor's Office provides independent research, analysis, consultation, and educational services to promote operational efficiency, effectiveness, accountability, and integrity in response to City needs.