New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor

Department of the Treasury
Division of Purchase and Property
Distribution and Support Services

July 1, 2005 to September 25, 2007

Richard L. Fair
State Auditor
The Honorable Jon S. Corzine  
Governor of New Jersey

The Honorable Richard J. Codey  
President of the Senate

The Honorable Joseph J. Roberts, Jr.  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of the Treasury, Division of Purchase and Property, Distribution and Support Services for the period of July 1, 2005 to September 25, 2007. If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair  
State Auditor  
February 26, 2008
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Department of the Treasury  
Division of Purchase and Property  
Distribution and Support Services

Scope

We have completed an audit of the Department of the Treasury, Division of Purchase and Property, Distribution and Support Services (DSS) for the period July 1, 2005 to September 25, 2007. Our audit included financial activities accounted for in the state’s General Fund.

DSS’s primary function is to maintain and operate a self-supporting, centralized facility for the purchase and distribution of selected food and other materials for various state agencies and other governmental units. Average annual expenditures of the center were $48.3 million while revenues, primarily comprised of a 15 per cent mark-up on goods sold, averaged $48.5 million. DSS estimates that it saves the taxpayers approximately $8.0 million annually through its distribution operation. Our audit excluded administrative expenditures which are audited as part of our Department of the Treasury administration audit.

Objectives

The objectives of this audit were to verify that DSS is operating in a self-supporting manner and to determine if financial transactions were related to DSS operations, were reasonable, and were recorded properly in the accounting systems. We also tested for resolution of significant conditions noted in our prior report dated September 11, 2001.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.
Methodology

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the Department of the Treasury, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of DSS transactions. We also read the budget message and reviewed financial trends. DSS personnel were interviewed to obtain an understanding of the operations and the internal controls of the agency.

A nonstatistical sampling approach was used. Our samples were designed to provide conclusions concerning internal policies and procedures of DSS; the propriety, reasonableness, and proper recording of transactions; and to determine the adequacy of the prices charged for their services in fulfilling the goal of self-sufficiency. Sample populations were sorted and transactions were judgmentally selected for testing.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by management and performed tests to determine if the corrective action was effective.

Conclusions

We found the financial transactions included in our testing were related to DSS operations, were reasonable, and were recorded properly in the accounting systems. In addition, we determined that the current revenues are adequate to meet DSS current expenditures. However, in making these determinations we noted certain inefficiencies meriting management's attention. We also noted that the DSS has taken measures to comply with our prior report recommendations.
Procurement of Copy Paper

Customer cost savings would result if copy paper purchasing and distribution were returned to Distribution and Support Services.

Recommendation

We recommend the department consider returning the copy paper product line to DSS to enhance customer savings or determine if a lease saving opportunity exists with the available space.

Customer Outreach

Distribution and Support Services (DSS) purchases goods in bulk amounts and, after an allowance for operating costs, passes these savings to its customers. State agencies, counties, municipalities, colleges, state authorities and commissions, schools, and volunteer fire and first aid squads are eligible to participate in the DSS programs. A review of the active customer reports noted that in fiscal year 2003 there were 470 active customers of which 267 represented state agencies. Active customers that were school
districts (the state has more than 600 school districts) totaled just 46 in fiscal year 2003 and has declined to 33 in fiscal year 2007. Similarly, the number of municipalities (566 in New Jersey) utilizing DSS has dropped from 74 to 52 during that period of time.

The DSS outreach procedures need improvement. The removal of copy paper from the product line may have contributed to the decline; however, there have been no personal contacts by DSS with previously active customers. There are no funds budgeted for outreach at the present time.

The Division of Purchase and Property has a cooperative purchasing program that allows local buying units to obtain the pricing benefits of specific contracts between the State of New Jersey and selected vendors. An added link on the main internet page of this program would seem a low-cost method of informing eligible customers that another source of obtaining benefits from the state’s bulk purchasing power is available. Including their monthly price listing for the reference ease of potential clients would be beneficial.

**Recommendation**

We recommend that DSS, in conjunction with the Division of Purchase and Property, use the existing sources of information to inform the local buying units of the potential for added cost-savings through the use of DSS. We further recommend that DSS expand its own efforts to obtain new and former clients.
February 22, 2008

Mr. Stephen M. Eells  
Assistant State Auditor  
Office of the State Auditor  
Office of Legislative Services  
PO Box 067  
Trenton, NJ 08625-0067

RE: Draft Audit Report of the Department of the Treasury, Division of Purchase and Property, Distribution and Support Services

Dear Mr. Eells:

Thank you for the opportunity to review the above referenced draft audit report to be released to the Governor and the Legislature. Treasurer Rousseau has asked that, as the Acting Director of the Division of Purchase and Property, I respond on his behalf.

Recommendation:
We recommend the Department consider returning the copy paper product line to DSS to enhance customer savings or determine if a lease saving opportunity exists with the available space.

Response:
The Department will consider returning the copy paper product line to DSS in conjunction with a study of all available alternatives for sourcing copy paper to be sure we select the best, lowest cost option for the State. In conducting this analysis, the Department will consider alternative possible uses for the Distribution Center space, including opportunities for further lease savings.

Recommendation:
We recommend that DSS, in conjunction with the Division of Purchase and Property, use the existing sources of information to inform the local buying units of the potential for
added cost savings through the use of DSS. We further recommend that DSS expand its own efforts to obtain new and former clients.

**Response:**
The Division continues to improve its outreach to cooperative purchasing partners. Subsequent to the completion of the audit, the Division added a link to the Cooperative Purchasing webpage that allows local buying units to download DSS pricing and order forms.

Meanwhile, the Department will be analyzing the cost of performing various bulk purchasing, warehousing and distribution services for State agencies and our cooperative purchasing partners to be sure that DSS is performing all appropriate activities that can/should be most cost effectively performed by DSS.

We thank you for your efforts on behalf of the Division. OLS audits are a valuable resource in our efforts to improve the Division’s operations.

With Best Regards,

[Signature]

Alice K. Small
Acting Director
Division of Purchase and Property

C: R. David Rousseau, Acting State Treasurer
   Debra Bell, Deputy State Treasurer