
MEMORANDUM

DATE: September 28, 2006

TO: Karen McConnaughay County Board Chairman, Elected Officials,
Department Heads and County Board Members

FROM: William F. Keck, Auditor and Scott Sanders, Deputy Auditor

SUBJECT: Audit of Photocopiers

Enclosed is a copy of our Photocopier Audit report. Included therein are our findings and recommendations. We would appreciate your response within the KCC 30 day timeline.

If you have any questions, please contact Bill Keck or Scott Sanders

OFFICE OF THE COUNTY AUDITOR

KANE COUNTY GOVERNMENT CENTER

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AUDIT OF COPIERS September 28, 2006

At the request of Chairman Karen McConaughay the Auditor's Office conducted an audit of the photocopier machines (copiers) owned, maintained and operated by Kane County. The objectives of the audit were to:

- Determine if a cost savings could be obtained by centralizing the purchasing function.
- Determine whether the copiers were purchased or leased and the vendor source.
- Determine the age and length of service (maintenance) agreements.
- Determine compliance with State Statutes, County Code and current purchasing policy established by Central Services & Purchasing.

At the time that audit procedures were being performed, a revised Kane County Procurement Ordinance was presented to the Finance/Budget Committee meeting held September 13, 2006 for initial review and comment. A review of the proposed changes concluded that there is no adverse effect on the findings of this audit.

Changes to the Financial Policies are on the agenda of the October Finance Committee meeting. If the proposed changes are subsequently passed, then the accountability for copiers will be affected.

BACKGROUND

The applicable statute that was tested for compliance is Illinois Compiled Statute 55 ILCS 5/3-1005 Duties of Auditor with respect to "maintain a file of all contracts entered into by the county board and all authorized county officers, for or on behalf of the county."

Resolution #05-303 was passed on September 13, 2005 amending Article VI of the Kane County Code (KCC) which provides for the purchasing activities of the Centralized Purchasing Department. This resolution amended the limitations of the Centralized Purchasing Department. KCC Section 2-209 provides that purchases of ten thousand dollars (\$10,000.00) and under shall be in accordance with the established procedures of the Central Purchasing Department or previous resolutions of the Kane County Board.

Section 2-212 of the KCC provides the delegation of Authority to Determine Claims:

- (a) **County Departments:** Department bills shall be paid in accord with all code requirements relative to central purchasing. Only bills of ten thousand dollars (\$10,000.00) or more shall require approval of the county board.
- (b) **Elected Officials:** Other than the county sheriff and the county coroner, the bills of elected officials who have been vested with "internal control" by statute or otherwise shall be paid upon confirmation by the county auditor that the bills have been approved by the submitting official, are for public purpose, and are within that official's budget as to equipment, materials and service.
- (c) **Sheriff and Coroner:** As to the county sheriff and county coroner, any purchase of equipment shall be made in accordance with all code requirements relative to central purchasing. As to the coroner, other expenditures shall be paid in accordance with the provisions of subsection (b) of this section. The sheriff shall direct the treasurer to pay the expenditures for the sheriff's office, subject to the county appropriation ordinance and review by the county auditor.

Resolution #01-68 was passed on March 13, 2001 amending the Kane County Financial Policy. Section 5 (h) states that it shall be the department head's responsibility to manage and maintain an inventory of all sensitive assets less than \$10,000. Sensitive assets are defined by the Finance Director. The definition of sensitive assets was put on the June 2006 Finance Committee agenda but was tabled to July, the July meeting was cancelled, and the August meeting tabled the issue to October of 2006. A random sample of Offices/Departments indicated that not all Offices/Departments maintain an asset listing.

Central Services-Purchasing-Building and Grounds manual describes the purchasing overview as a service to all County departments that request information, or assistance in procuring items or service, processes Bids or Proposals as required by resolution and maintain a book of state contracts that the County is allowed to utilize without having to go out for bid. The manual permits the Department Heads and Elected Officials as per their corresponding state statute, to freely acquire items under the established bid amount (currently \$10,000). Under the Bid Exclusions section the manual states that any contract for duplicating machines and supplies are excluded from the bid process.

STATISTICAL FINDINGS

The Auditor's Office sent a request for copier information from each Office/Department. All copiers identified to the Auditor's Office were verified without exception. The Regional Office of Education responded that they purchased a quantity of 3 copiers through grants and therefore is not part of the County inventory and as such is not included in the statistical sample. The copier information gathered yielded the following statistics:

- The October 1996 internal audit report showed total number of copiers at 72 compared to 104 copiers currently in use.
- The 1996 audit calculated 7,042,091 total average annual copies made compared to 10,751,722 average annual copies made or a 52.7% increase in usage.

- Annual maintenance costs for 1996 were \$232,924.00 compared to \$233,998.31 for 2005, \$202,667.00 for 2004 and \$196,053.49 for 2003. Total maintenance costs as of 9-20-06 are \$114,035.37 compared to budget total of \$284,350.00. A total of 94 copiers have a maintenance agreement. This indicates that the Offices/Departments are achieving optimal pricing for maintenance.
- 94 copiers have a maintenance agreement. The length of the service agreement is generally yearly and is automatically renewable. Some were monthly or quarterly agreements. Most agreements are based on number of copies and may or may not include parts such as toner and drum. None of the agreements include paper. Very few agreements are fixed fee based.
- Of the 104 copiers currently in use, 93 copiers were purchased, 8 copiers are leased and 3 copiers were not known.
- 80 of 93 copiers had acquisition information and totaled \$616,066.97. 24 copiers were acquired from 1991 through 1999. 69 copiers were acquired from 2000 to May 2006.
- Of the 80 purchased copiers, 22 copiers were purchased for greater than \$10,000.00 from four vendors representing 47.8% of the total purchase amount or \$294,683.99. One of those purchases did not have Board approval in accordance with the County code.
- County wide purchases, excluding leases, were made from 12 vendors. The top three vendors are as follows:

Entity Name	Acquisition	% of Total		% of
Acquired From	Amount	Acquisition	QTY	QTY Total
Gordon Fleisch	\$282,971.00	45.9%	35	37.6%
Konica Minolta	\$199,264.97	32.3%	27	29.0%
IKON Office Solutions	\$71,409.00	11.6%	10	10.8%
Nine All Other Vendors	\$62,422.00	10.2%	21	22.6%
Total Acquisition	\$616,066.97	100.0%	93	77.4%

- Leased copiers were acquired from 5 different vendors including the top three as shown above.

COMPLIANCE FINDING:

A significant number of maintenance agreements were not on file with the Auditor's Office in violation of the contract submittal requirement in the state statute. Most of the agreements were obtained during our field work.

One purchase was not made in accordance with State Statute, County Code and existing purchasing policy established by Central Services & Purchasing. The department did not seek Board approval as required for purchases greater than \$10,000.00. This purchase

was made on November 30, 2000. The Purchase Policy was explained to the appropriate department personnel.

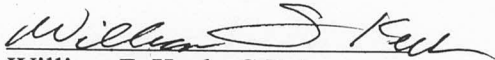
RECOMMENDATION:

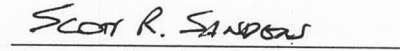
- Those Offices and Departments that have not provided the Auditor's Office with copies of maintenance agreements must do so immediately.
- Based on the total dollar amount of purchases (\$616,066) it is possible that a cost savings may be achieved with a centralized purchasing function. It is recommended that the data collected be shared with the Director of Purchasing for further analysis. The same is recommended for maintenance agreement data.
- The Finance Department should remind all the Elected Officials and Department Heads as to the current policies in place. Upon Board approval of proposed changes to the Financial Policy the Finance Department should again notify the Elected Officials and Department Heads.

In accordance with KCC Sec. 2-192 (c) (2) "within thirty (30) days of receipt of the internal audit report, each county officer, agent or division shall submit a written response to the county auditor, outlining the action that has been taken in response to the recommendations made by the auditor."

We would like to express our appreciation to the Elected Officials, Department heads and staff personnel for their generous assistance and cooperation provided during this audit.

Respectively Submitted,


William F. Keck, C.P.A.
County Auditor


Scott R. Sanders
Deputy Auditor