

**SPECIAL AUDIT REPORT**

**COMPARING DIVISION OF PRINTING  
AND COMMERCIAL PRINTERS' CHARGES**

September 12, 1980

Legislative Division of Post Audit  
State of Kansas  
Topeka



## FOREWORD

In June 1980, legislative concern was expressed that the charges for printing by the Division of Printing were not competitive with charges for printing by the private sector. In response to this concern, the Legislative Post Audit Committee directed the Legislative Division of Post Audit to review the Division's competitiveness with commercial printing firms. This report transmits the findings of that limited-scope performance audit to the Committee and the Legislature.

As a printing establishment in the public sector, the Division of Printing has several cost advantages which should make its charges for printing lower than commercial printers' prices. These include: no profit margin, no taxes, no rent or mortgage payments on the State Printing Plant, no sales and marketing expenses, and no interest on capital equipment purchases. Based on estimates of the Division of Printing, it appears this cost advantage should total 18-23 percent.

To determine whether the Division's charges are indeed lower than the private sector's, Legislative Post Audit solicited bids from seven commercial printers on a sample of 15 recently completed State printing jobs. The comparison of the commercial printers' bids to the Division's charges for the 15 jobs found that the average bid was 6.4 percent more than the Division's charges; while the low bid was 6.5 percent less than the Division's charges. Thus, the Division does not appear to enjoy the expected cost advantage.

The audit found that the reason the Division does not enjoy the expected cost advantage is because it is not competitive with the private sector primarily in the areas of forms and publications, which account for over half of the Division's workload. The main reason that the Division is not competitive in these areas appears to be that the Division's printing equipment, which is geared to produce a broad range of jobs, is not as efficient for printing forms and publications as the equipment of the commercial printers who specialize in these areas.

Since the Division of Printing is not as competitive as should be expected, it appears that the Division's efficiency should be improved or more printing should be contracted to the private sector. However, before recommendations can be made on this matter, there are a number of questions that need to be answered. These include: exactly what types of printing can be most efficiently provided by each sector; what reductions in the Division's personnel and equipment would be necessary to fully realize the cost savings from contracting to the private sector; and what

improvements can be made in the Division's operations? To answer these questions, the audit recommends that the Legislative Post Audit Committee direct Legislative Post Audit to conduct an in-depth performance audit of State printing facilities.

The draft audit report was sent to the Division of Printing to give it the opportunity to comment on the report's recommendations, provide additional information, or point out errors of fact. The Division's response was in two parts--a detailed response 13 pages long and a three page summary. Because the detailed response was longer than the report and discussed a number of matters that were not within the scope of the audit, only the Division's summary response has been included with this report as Appendix C. A copy of the detailed response is available at the offices of the Legislative Division of Post Audit.

The Division of Printing responded that a number of factors which would affect the comparison of the Division's charges with commercial printers' were not included in the audit. These include typesetting comparisons, cost savings on repeat jobs, physical plant conditions, and increased bidding structures. Legislative Post Audit disagrees that these factors materially affect the findings of this audit but agrees that they should be considered in a larger audit. In addition, the Division's response listed a number of "errors" in the report. Most of these items were not errors. Those items that were in error were minor and did not materially affect the findings of the audit. Nonetheless, they have been corrected to ensure the accuracy of the report. Finally, the Division did agree that production costs could be lowered by improvements in plant operations. However, in response to the recommendation for a performance audit of state printing facilities to help identify the needed improvements the Division recommends "...that a professional firm with knowledge of today's printing technology and printing cost accounting, be employed for that purpose." Based on the Division's response, it was apparent that there was some misunderstanding of the limited scope of this audit and the focus of the audit's one recommendation. To alleviate any misunderstanding, the recommendation has been modified in the final report.

This audit was conducted by Glenn Deck and Elliott Lefkowitz. Legislative Post Audit wishes to thank agency officials for the courtesy and cooperation they showed throughout the audit. Additionally, Legislative Post Audit gratefully acknowledges the cooperation of the seven commercial printing firms, listed in Appendix A, which provided bids to the auditors.

  
RICHARD E. BROWN  
Legislative Post Auditor

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# COMPARING DIVISION OF PRINTING AND COMMERCIAL PRINTERS' CHARGES

## INTRODUCTION

Since 1869, all public printing required by the State of Kansas has been produced by a State printing agency. Currently, the Division of Printing within the Department of Administration is responsible for this function. Throughout the years since the establishment of a printing agency, the Legislature has taken a number of actions to improve the management and efficiency of this function. One of these actions was to propose a constitutional amendment to abolish the elective office of the State Printer. The amendment was passed in 1974 and the Office of the State Printer was phased out and replaced by the Division of Printing in 1976.

The Division of Printing should enjoy a significant price advantage over commercial printers, since it has no obligation to return a profit, does not pay property or income taxes, does not pay rent or mortgage payments on the State Printing Plant, and pays no interest on capital equipment purchases. However, in June 1980, legislative concern was expressed that the cost of printing done by the Division of Printing may not be competitive with the cost of commercial printing. In response to this concern, the Legislative Post Audit Committee directed the Legislative Division of Post Audit to conduct a special audit reviewing the competitiveness of State printing with the private sector.

### Audit Objectives and Methods

This special audit addressed the following questions:

1. Are the charges for printing by the Division of Printing competitive with the charges for printing by the private sector?
2. In those cases in which the Division is not competitive, what are the reasons for higher State charges?

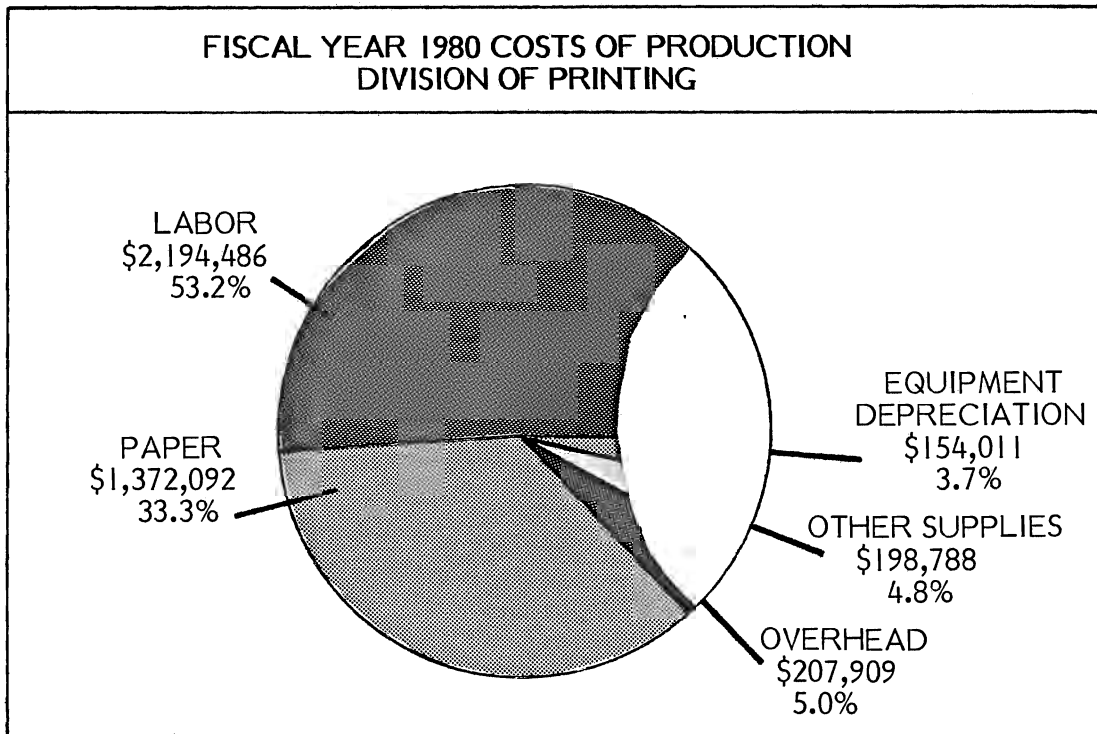
To answer these questions, Legislative Post Audit solicited bids from seven commercial printers on a sample of 15 recently completed State printing jobs. (Appendix A lists the commercial printers providing bids.) The bids by the commercial printers were compared to the actual charges

for the jobs which were billed to the State agencies requesting the work. In those cases in which the Division's charges were higher than the commercial bids, the auditors attempted to determine the reason by reviewing the Division's rate structure, cost accounting system, and equipment utilization. Although the bids by the commercial printers are not binding, the auditors attempted to ensure that they were not below the current commercial prices by seeking several bids on each job and by determining the reason(s) why the low bidder could produce the job at a lower price.

Organization and Financing of the  
Division of Printing

The Division of Printing is headed by a Director who is in the unclassified service and is appointed by the Secretary of Administration. In fiscal year 1980, the Division had 146 employees and total expenditures of \$4.1 million. The Division is substantially a self-financing agency, since all operating and most capital outlay expenditures for equipment are funded from reimbursements for printing services provided to State agencies.

K.S.A. 75-1022 provides that the Division's billings for printing services to agencies should include both direct and indirect costs of production. These costs include such items as labor, equipment depreciation, supplies, utilities, and administrative overhead. The figure below summarizes the Division's costs of production for fiscal year 1980.





As the figure shows, labor is the largest cost of production, totaling \$2,194,486 and accounting for 53.2 percent of total costs. The second largest cost was for paper, amounting to \$1,372,092 (33.3 percent of the total). The remaining costs were overhead, \$207,909 (5.0 percent), other supplies, \$198,788 (4.8 percent), and equipment depreciation, \$154,011 (3.7 percent). In order to bill agencies for printing services, the Division has developed a standard rate for each of the various machine and hand operations that go into producing a printing job. These operations include composing, plate making, presswork, and binding. Detailed time records are maintained for each job and the billing to the user agency is computed from these time records and the standard rates.

As a printing establishment in the public sector, the Division's billing rates should be less than the commercial firms' since it has several cost advantages. These include no profit margin, no taxes, no rent or mortgage payments on the State Printing Plant, no sales or marketing expenses and no interest on capital equipment purchases. In a 1976 report to the Legislature, the Director of Printing concluded that public sector printers should have at least a 12 percent cost advantage over commercial printers. This advantage was comprised of a nine percent profit margin, two percent tax advantage, and one percent advantage for quantity buying and competitive bidding. Since that time, the Director contends that the average profit margin has increased to 15-20 percent. Therefore, the cost advantage that public printers have over commercial printers should be 18-23 percent.

Because of the diverse printing needs of the Legislature and State agencies, the Division of Printing is equipped to produce a broad range of printing. In fiscal year 1980, the Division handled 14,718 printing jobs with total charges of \$4.3 million. Table 1 gives a breakdown of the estimated dollar amount of the various types of printing produced by the Division in fiscal year 1980. As the table shows, publications are the largest category of printing jobs, amounting to \$1.4 million or 31.7 percent of the total. The next largest category is forms which accounted for \$1.2 million (27.6 percent) of the total charges. Legislative printing amounted to \$727,935 (16.8 percent). The remaining categories were stationery, \$485,290 (11.2 percent), duplicating \$446,293 (10.3 percent), and miscellaneous, \$103,991 (2.4 percent).

With two exceptions, K.S.A. 75-1005 requires the Division of Printing to do all of the public printing and binding required by the Legislature, Supreme Court, and other State agencies. First, any State institution with a printing plant established prior to the effective date of the statute is permitted to do printing for the institution with the approval of the Director of Printing. Currently, there are printing facilities of various sizes at all of the Regents' institutions and several of the State's correctional institutions. Legislative Post Audit estimates that printing produced by these institutions costs approximately \$3 million annually. In addition, nearly every large State agency has long-run duplicating equipment which is not included in this estimate.

The second exception to the statute provides that, when the Director of Printing is of the opinion that a particular printing job should be obtained in the commercial market, the Director may authorize any State agency to obtain the job in accordance with the laws of purchasing. The Director has exercised this option in the case of such items as continuous forms, specialty envelopes, silk screen jobs, and certain publications. In these cases, the Director concluded that it was less expensive to the State to purchase this printing from the private sector than to produce it at the State Printing Plant. Based on purchasing records, the Division of Purchasing estimates that at least \$2.1 million of printing is purchased annually by State agencies from the private sector. This means that, overall, the Division of Printing produces about 45 percent of the State's total dollar volume of printing jobs. Because of the limited time available for this audit, the audit focused on the Division of Printing and did not examine the competitiveness of other State printing facilities.

Table 1  
Estimated Dollar Amount and Percent of Printing, By Type  
Division of Printing  
Fiscal Year 1980

<u>Type of Printing</u>	<u>Amount Billed</u>	<u>Percent</u>
<u>Publications</u> annual reports, catalogs, journals, informative magazines, newsletters, agency policies and regulations.	\$1,373,543	31.7%
<u>Forms</u> tax forms, Department of Admin- istration forms, inspection forms, licenses, internal agency forms.	\$1,195,893	27.6%
<u>Legislative</u> bills, session laws, statutes, action reports, indexes.	\$ 727,935	16.8%
<u>Stationery</u> letterheads, envelopes, business cards, memos	\$ 485,290	11.2%
<u>Duplicating</u> short-run duplication of reports, forms, memos.	\$ 446,293	10.3%
<u>Miscellaneous</u> maps, tickets, parking stickers, specialty jobs.	\$ 103,991	2.4%
Total	\$4,332,945*	100.0%

\*Total printing charges for fiscal year 1980 exceeded actual expenditures by approximately \$200,000 since the rates were based on estimated expenditures.

Developed by Legislative Post Audit from agency records.

### Comparison of Division of Printing Charges to Commercial Bids

To compare the printing charges of the Division of Printing with commercial printers, the auditors selected a sample of 15 printing jobs recently completed by the Division. The Director reviewed the sample and concurred that it was generally representative of the various types and sizes of jobs produced by the Division. The auditors then solicited bids from seven local printing firms on these jobs. The firms were given detailed specifications for each job and asked to submit bids based on their actual costs plus a normal mark-up for profit. Since most of the commercial printers are not equipped to handle the broad range of work that the Division produces, the commercial printers declined to bid on those jobs for which they are not equipped or do not perform regularly.

Table 2 summarizes the Division's charges and the low and average commercial printers' bids for the sample of 15 jobs (Appendix B summarizes the individual bids by each printer for all 15 jobs.) The table shows that for the 15 jobs the commercial firms' average bids were 6.4 percent more than the Division's charges. By contrast, the commercial firms' low bids on the 15 jobs were 6.5 percent less than the Division's charges. These figures indicate that the Division is not operating efficiently, since its charges are not 18-23 percent below the low or average bids of the commercial firms. Generally, the Division's charges for printing appear to be competitive with the prices charged in the private sector in three categories--legislative work, stationery, and miscellaneous jobs. However, in the three remaining categories (publications, forms, and duplicating) the Division's charges exceeded the low bids by the commercial printers.

### Types of Printing for Which the Division is Competitive

For the sample jobs in the printing categories of legislative work, stationery, and miscellaneous, the Division is competitive with the commercial firms. These categories account for \$1,317,216 or 30.4 percent of the total volume of the Division's workload. Although only one legislative job was included in the comparison, the auditors' review found that the Division has a competitive advantage in this area because of its computerized photocomposition system. This system enables the Division to produce numerous legislative documents with a one day turnaround time. For most of the legislative jobs such as bills, resolutions, and journals the private printers would be unable to bid because their composition equipment could not provide the turnaround time required by the Legislature.

In the areas of stationery and some miscellaneous jobs the Division tends to have an advantage over most of the commercial printers, because of lower paper costs. The State purchases large quantities of paper on fixed-price contracts. By contrast, most of the printing firms which bid on these jobs buy smaller quantities of paper for letterhead and maps. Since

the unit costs of paper go down significantly as the quantity increases and the price is fixed for the duration of the State contract, the Division has a paper cost advantage over the private firms in these areas.

Table 2  
Comparison of Division of Printing Charges  
With Low and Average Commercial Printing Bids  
Fiscal Year 1980

Type of Printing Job	Quantity	Division Charges	Low Commercial Bid		Average Commercial Bid	
			Amount Bid	Percent Difference	Amount Bid	Percent Difference
<u>Publications</u>						
Employee Newsletter	29,000	\$ 1,033.38	\$ 828.72	-19.8%	\$ 921.79	-10.8%
College Catalog	7,700	7,791.08	7,700.00	-1.2%	9,012.02	+15.7%
Kansas Magazine	35,450	20,686.40	19,789.88	-4.3%	22,215.94	+7.4%
1980 Summary of Legislation	1,300	1,410.74	1,390.00	-1.5%	2,124.59	+50.6%
Total Publications		\$30,921.60	\$29,708.60	-3.9%	\$34,274.34	+10.8%
<u>Forms</u>						
Purchase Order Voucher	52,780	\$ 4,239.06	\$ 2,857.17	-32.6%	\$ 3,778.84	-10.9%
Agency Internal Form	29,800	1,010.39	996.35	-1.4%	1,384.80	+37.1%
Income Tax Form	875,000	8,837.58	4,996.25	-43.5%	8,304.40	-6.0%
Total Forms		\$14,087.03	\$ 8,849.77	-37.2%	\$13,468.04	-4.4%
<u>Legislative</u>						
1980 Session Laws	4,250	\$42,593.22	\$42,500.00	-0.2%	\$42,995.00	+0.9%
<u>Stationery</u>						
Envelope	20,000	\$ 314.32	\$ 314.51	+0.1%	\$ 368.54	+17.2%
Business Card	1,000	24.60	23.00	-6.5%	41.37	+68.2%
Letterhead	125,000	1,287.86	1,885.00	+46.4%	2,712.68	+110.6%
Total Stationery		\$ 1,626.78	\$ 2,222.51	+36.6%	\$ 3,122.59	+91.9%
<u>Duplicating</u>						
Agency Internal Form	5,000	\$ 72.00	\$ 69.45	-3.5%	\$ 111.09	+54.3%
Booklet	1,700	2,197.89	1,918.00	-12.7%	2,731.22	+24.3%
Audit Report	350	888.39	936.00	+5.4%	1,527.28	+71.9%
Total Duplicating		\$ 3,158.28	\$ 2,923.45	-7.4%	\$ 4,369.59	+38.4%
<u>Miscellaneous</u>						
County Map	3,000	\$ 682.17	\$ 811.57	+19.0%	\$ 816.47	+19.7%
Total All Printing		\$93,069.08	\$87,015.90	-6.5%	\$99,042.62	+6.4%

Developed by Legislative Post Audit from agency records and commercial printing firm bids.

## Types of Printing for Which the Division is Not Competitive

Based on a comparison between the Division's charges and the low bid for each of the 15 sample jobs, there are three categories of printing in which the Division of Printing is not competitive: publications, forms, and duplicating. These three categories account for an estimated total of \$3,015,729 or 69.6 percent of the Division's fiscal year 1980 charges.

In responding to the diverse printing needs of the State Legislature and State agencies, the Division has equipped itself as a "general" printer to be able to perform the majority of the jobs requested. In the commercial printing market there are many firms that specialize, structuring their operation to be competitive only for certain types of printing jobs. In the job sample comparison, the low bid firms in the categories in which the Division was not competitive are for the most part specialists. The following sections describe in general the advantages these firms tend to have over the Division of Printing in the three areas of printing.

Publications. For the four jobs in the publications category, the firms' low bids averaged 3.9 percent lower than the Division charges. Part of the reason for the lower bids is that publication printing specialists deal in such volume that they have the storage facilities to buy this type of paper directly from the manufacturer at a greater discount than the State can buy on contract. In the areas of type of equipment used and printing techniques employed, the Division and the commercial firms are generally similar. An exception is in the printing of the Department of Administration's four page employee newsletter where the low bid firm's printing equipment is designed to print such a publication in one run through the press. By contrast, the Division's press does not have this capability, so the total run time is greater, thereby increasing the cost. For the three other sample jobs in the publications category, the scope of the audit did not allow time to determine the exact reasons for the difference in cost between the Division's charges and the firm's low bids. In a more in-depth study, the differences can be determined through comparisons of equipment utilization, labor costs, capital equipment acquisition and depreciation practices.

Forms. For the three jobs in the forms category, the firms' low bids were 37.2 percent lower than the Division's charges. There are three general reasons for this large difference. First, these firms have high speed presses that print jobs faster than the Division's presses. Second, the firms have more efficient collating equipment. Third, the firms' paper purchases are less costly, because they buy larger quantities than the State. On large jobs in particular, these firms can bid substantially less than the Division can charge. For example, in the 875,000 copy printing of the Department of Revenue's Individual Income Tax form the low bid is

43.5 percent lower than the Division's charge. At the time this job was produced, the Division's paper costs were abnormally high. However, if the Division produced the job at its current paper prices, the low bidder's charge would still be 31.1 percent less than the Division's charge. On smaller jobs the percentage difference between the Division charge and low bid is lower but still significant. In discussions with the Director, the auditors learned that the large presses used by the commercial firms for this type of printing job cost in excess of one million dollars. Division management has concluded that the annual volume of form jobs is not large enough to justify purchasing this type of equipment.

Duplicating. For the duplicating category, the auditors selected three jobs of varying types. The low bids averaged 7.4 percent lower than the Division's charges. In two of the jobs, an agency form and handbook, the Division is not competitive. These jobs are routine with medium run sizes of 1,700 to 5,000 copies. More study is needed to determine the exact reasons for the commercial firms' low bids. The third job, an audit report, is a short-run specialty type job requiring special covers and hand collating. The low bid is 5.4 percent higher than the Division's charge, because commercial firms are not equipped to competitively handle such a job.

#### Conclusion

As a printing establishment in the public sector, the Division of Printing has several cost advantages over commercial printing firms. These include no profit margin, no taxes, no rent or mortgage payments on the State Printing Plant, no sales and marketing expenses, and no interest on capital equipment purchases. In a 1976 report to the Legislature, the Director of Printing concluded that public sector printers should have at least a 12 percent cost advantage over commercial printers. Since that time, increases in profit margins have probably raised this cost advantage to between 18 and 23 percent.

The comparison of the Division's charges to commercial printers' bids for 15 representative jobs found that the average bids were 6.4 percent more than the Division's charges. By contrast, the firms' low bids were 6.5 percent less than the Division's charges. Thus the Division does not appear to enjoy the above mentioned cost advantage. Further, the audit found that the Division was not competitive with the private sector primarily in the areas of publications and forms, which account for over half of the division's workload. The primary reason that the Division is not competitive in these areas appears to be that the Division's printing equipment, which is geared to

produce a broad range of jobs, is not as efficient for printing publications and forms as the equipment of the commercial printers who specialize in them.

Since the Division of Printing is not as competitive as should be expected, it appears that the Division's efficiency should be improved or more printing should be contracted to the private sector. However, before recommendations can be made on this matter, there are a number of questions that need to be answered. These include: exactly what types and how much printing should be provided by the private sector; what reductions in the Division's personnel and equipment would be necessary to fully realize the cost savings from contracting to the private sector; what improvements can be made in the Division's operations; and how efficient are the other State printing operations?

#### Recommendation

The Legislative Post Audit Committee should direct the Legislative Division of Post Audit to conduct an in-depth performance audit of all State printing facilities. Such an audit would determine how State printing charges can be reduced by contracting more printing to the private sector and by making reductions in the Division of Printing's labor and equipment costs.





**Appendix A**

**Commercial Printing Firms Providing Bids**

Adams Business Forms, Topeka

Central OK Printing, Inc., Topeka

General Printing and Paper, Inc., Topeka

Hall Lithographing Co., Inc., Topeka

Interstate Book Manufacturers, Inc., Olathe

Quik Print, Topeka

Standard-Hart Printing Co., Inc., Topeka



Appendix B

Division Charges and Commercial Bids  
Printing Jobs Sample

Type of Printing	Division of Printing Charges	Commercial Bids						
		Firm A	Firm B	Firm C	Firm D	Firm E	Firm F	Firm G
<u>Publications</u>								
Employee Newsletter	\$1,033.38	\$ ---	\$ ---	\$ ---	\$ 828.72	\$ 1,014.86	\$ ---	\$ ---
College Catalog	7,791.08	---	---	---	9,872.00	10,313.07	8,163.00	7,700.00
Kansas Magazine	20,686.40	---	---	---	24,642.00	19,789.88	---	---
1980 Summary of Legislation	1,410.74	---	---	---	1,491.00	3,492.78	1,390.00	---
<u>Forms</u>								
Purchase Order Voucher	4,239.06	---	2,867.00	---	2,857.17	4,033.26	3,757.94	---
Agency Internal Form	1,010.39	---	1,090.68	---	996.35	1,766.08	1,686.08	---
Income Tax Form	8,837.58	---	4,996.25	---	7,027.00	10,081.83	11,112.50	---
<u>Legislative</u>								
1980 Session Laws	42,593.22	---	---	---	---	---	42,500.00	43,490.00
<u>Stationery</u>								
Envelope	314.32	---	---	314.52	314.51	476.58	---	---
Business Card	24.60	---	---	23.00	26.42	74.69	---	---
Letterhead	1,287.86	---	---	4,700.00	1,994.00	2,271.72	1,885.00	---
<u>Duplicating</u>								
Agency Internal Form	72.00	178.50	---	90.00	69.45	106.40	---	---
Booklet	2,197.89	3,969.40	---	1,937.50	2,706.00	3,125.18	1,918.00	---
Audit Report	888.39	1,508.68	---	1,774.45	1,619.51	1,797.74	936.00	---
<u>Miscellaneous</u>								
County Map	682.17	---	---	---	811.57	821.38	---	---

Developed by Legislative Post Audit from agency records and commercial printing firm bids.



Appendix C

Agency Response

STATE OF KANSAS



DEPARTMENT OF ADMINISTRATION  
DIVISION OF PRINTING

JOHN CARLIN  
Governor

WILLIAM T. SMITH, JR.  
Director of Printing

201 West Tenth  
Topeka, Kansas 66612  
(913) 296-3631

August 28, 1980

Richard E. Brown  
Legislative Post Auditor  
Mills Building  
Topeka, Kansas 66612

Dear Sir:

I am submitting the enclosed documents which are a detailed response to the August 11, 1980, draft report of the program audit of the Division of Printing.

I am certainly always mindful of the need to improve the printing plant operations and am most receptive to a thoroughly objective approach to bringing about needed improvements.

In this spirit, therefore, I would respectfully like to point out certain errors that I feel need to be corrected since they would appear to bear somewhat heavily on conclusions and recommendations that might be made by the Division of Post Audit. In summary they are:

Post Audit Statement  
(Pages reference Post Audit Report)

Printing Division Statement  
(Pages reference Division Response)

Pg. 1 - "Division...does not have rent..."

Pg. 7 - (Division pays) "...\$35,000 a year in rent."

Legislative Post Audit response. This sentence has been changed to read "...does not pay rent or mortgage payments on the State Printing Plant..."

Pg. 3 - "...inflation and increases in interest rates...raised (imputed) cost advantage of Division to between 15% and 20%."

Pg. 7 - "...Division subject to same inflationary pressures...wage rates, material costs, service contracts, parts, repairs, supplies..."

Legislative Post Audit response. This is not an error. The Division's price advantage over the private sector should be at least 18-23 percent, since the Director has stated that commercial firms make a profit of 15-20 percent on most printing jobs. To clarify the reasons for the price advantage, Legislative Post Audit has modified the report.

Pg. 4 - "...\$3.1 million of printing purchased by state from private sector..." (40 per cent)

Pg. 7 - "Actual figures...\$1,289,512.51."  
"...by dollar-volume only...  
50%." by total jobs 97%,  
"all state operations estimated  
99%."

Legislative Post Audit response. During the audit field-work, the auditors requested the dollar amount of commercial printing purchased by the State from the Division of Printing and the Division of Purchasing. Both of these offices told the auditors that the exact data was not available without considerable work by the Division of Purchasing. Due to the limited scope of the audit, the auditors accepted an estimate of \$3.1 million by the Division of Purchasing for this amount. The Division of Printing's response quotes "actual figures" of \$1,289,512.51. A review of the Division's computations with the Division of Purchasing found that an estimated \$800,000 of printing purchases such as computer fan-fold paper and tabulating forms had been omitted. Additionally, the Division of Purchasing believes that other State printing purchases were omitted by the Division of Printing in its computations, but time constraints prevented the auditors from determining the exact dollar amount of these omissions. Consequently, the estimate in the audit report has been changed to "at least \$2.1 million."

Pg. 5 - "...private firms asked to submit bids based on cost plus normal mark-up for profit"

Pg. 8 - (One firm)"...provided cost figure and survey attributed 10% markup to his cost...same vendor stated to Division director his normal markup is 10 to 25%, depending on market..."

Legislative Post Audit response. This is not an error. When the auditors solicited bids from the commercial firms, they requested that the bid include cost plus a normal markup for profit. One firm's bids did not include the profit markup. Since the auditors were unable to obtain an average markup for profit by this firm, a 10 percent profit markup was added to its

*bids. Because the Division maintains that a commercial printer's profit margin is 15-20 percent, the markup on this firm's bids has been increased to 17.5 percent.*

Pg. 5 - "...Division has advantage of lower paper costs because of large quantity purchases on fixed-price contracts..."

"...these (commercial) firms have high speed presses that print jobs faster than Division presses...and more efficient collating equipment."

Pg. 8 - "Many contracts have escalator clauses...insufficient warehouse space (sometimes inhibits) high-volume purchases..."  
Not all paper is bought on contract."

---"...true of continuous forms only, this business too highly specialized and too low in volume" to justify investing in that kind of equipment.

---"...state buys many short-run snapout forms that aren't done efficiently on high-speed, continuous forms presses... trend is toward carbonless rather than carbon-interleaved forms."

---"...Division's high-speed web" efficiency impaired by "poor plant environmental conditions...doubling handling..."

Legislative Post Audit response. This is not an error. The Division enjoys a cost advantage in the purchase of paper for stationery and maps. The Division apparently misinterpreted a statement in the report regarding the costs of purchasing paper for stationery and maps on contract and applied that statement to all types of paper. In addition, the Division misinterpreted a statement in the report about the efficiency of the Division's presses for printing forms and applied that statement to other types of printing.

Pgs. 7 and 8 - "...the 870,000 copy printing of...income tax form, the low (commercial) bid was 43.5% below the Division's charge."

Pg. 8 - "...Division had to pay a black market price of \$55 a hundredweight for paper versus \$33, the (current) average price...this (adjustment) would reduce the Division's charge to



a 24.1% greater figure...if and when environmental conditions permit, differential could be cut to 9.8% by reduced manning.

Legislative Post Audit response. This is not an error. At the time this job was completed, the low bidder was able to obtain paper through normal purchasing channels and did not experience the inflated paper costs the Division claims it had to pay on the "black market". If the Division produced this job at its current paper costs, the low bidder's charges would be 31.1 percent less than the Division's charges, rather than the 43.5 percent difference shown in the report. A sentence has been added to the report to explain this change in paper costs.

Pg. 7 - "Publications...Employee Newsletter by low bid firm "would be produced "in one run through the press..."

Pg. 9 - "...newsletter produced in one run..." but, "job must be hand-counted and tied in 91 separate bundles, adding \$150 to low bidder's quotation and \$72 to second-low."

"Job produced on 38 x 50 stock because Division was awaiting shipment of correct size. (Latest printing on correct stock, \$990.42)."

If adjusted for these factors, differences are extremely small.

Legislative Post Audit response. To enable the auditors to obtain comparable bids from the commercial printers, the Division of Printing wrote the detailed specifications for each job. On this job no specification was written for hand-counted and separately tied bundles. Consequently, the commercial firms did not bid on this part of the job. To make the comparison of charges more accurate, the Division's charges for this job have been reduced by the amount attributable to hand-counted and separately tied bundles.

Pg. 6 - Table 2, "Division charges, Publications. Summary of Legislation, \$1,620.89."

Pg. 9 - "\$1,620.89 includes \$210.15 in author's alterations that wasn't included in private sector bids."

Legislative Post Audit response. The Division's charges for this job have been reduced by the \$210.15 for author's alterations which were inadvertently included.

Pg. 6 - "Table 2. Division charges  
Forms. Purchase Order Voucher:  
\$4,239.06."

Pg. 9 - "Division must process 60 to 100 individual orders of these forms, inventory, record, package and DELIVER to agencies in Topeka area SEPARATELY. (No allowance was made for these services by commercial vendors.)"

Legislative Post Audit response. This is not an error. The Division's charges for this job could not be reduced by the amount attributable to processing and delivery of these forms, because the Division could not provide an estimate of the cost of these functions. Since the processing and delivery costs of these forms are borne by all 14,718 jobs produced by the Division in fiscal year 1980 and the low bid was 32.6 percent less than the Division's charges, these costs did not significantly affect the comparison.

Appendix B, "Duplicating, Division charges, Booklet, \$2,197.89."

Pg. 9 - "Division questions validity of quotation by firm C of \$1,937.50." See copy of same firm's quotation to printer August 18 for \$2,552 for same job. That's \$614.50 more than given to Post Audit the same month. (32 per cent more)."

Legislative Post Audit response. This is not an error. The auditors relied on the bid as quoted by this commercial printer. The auditors had no reason to question the accuracy of this bid. Since this firm was not the low bidder on this job, it did not materially affect the comparison to the Division's charges.

Division management feels that these errors should be corrected in the tables and that typesetting comparisons should also be made so that the entire picture can be placed in perspective.

In addition, I respectfully raise the questions of:

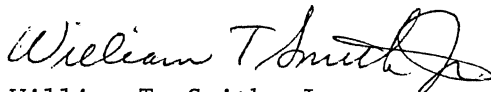
1. Savings by the Division of re-use of stored data, type, negatives, and plates.
2. Are commercial bids the same when definite commitments are made and delivery schedules must be met?
3. Is post audit's sampling too small to be valid?
4. Are physical plant conditions, facilities, and environment conducive to plant efficiency in the Division?
5. Would the cost of certain alternatives to centralized printing such as a bidding and specification-writing structure and travel costs by ordering agencies to their respective vendors offset some of the apparent savings that "low bids" appear to offer as reported in the survey?

*Legislative Post Audit response. Legislative Post Audit wishes to point out that in the limited scope of this audit an evaluation of typesetting comparisons, savings on stored data, physical plant conditions, and alternatives to centralized printing was not possible. All of these factors should be included in a more exhaustive study of the competitiveness of State printing facilities.*

*Legislative Post Audit did not state or imply in the audit report that the sample of 15 jobs was statistically valid. However, it was a representative cross-section of the Division's work, and the results from the sample indicate the need for a more extensive comparison.*

*Additionally, throughout the Division's response it is implied that the bids provided by the commercial printers were much lower than would be received if definite commitments were made. The auditors attempted to ensure that the bids were not below commercial prices by seeking several bids on each job and by determining the reasons why the low bidder could produce the job at a lower price. Further evidence of the integrity of the commercial bids is supplied by a recent actual bid situation. In May 1980, the Division determined that the Fish and Game magazine could be produced more efficiently by the private sector. Consequently, the printing of this publication was opened to bids by commercial printers. The average of the bids of this job and the low bid were 12.4 and 19.6 percent less than the Division's charges, respectively. Since this publication is very similar to the Kansas Magazine included in the audit sample, it provides further corroboration of the lack of the Division's competitiveness in the publications category.*

Sincerely yours,



William T. Smith, Jr.  
Director  
Division of Printing

