



OKLAHOMA

**DEPARTMENT OF
CENTRAL SERVICES**

AUDIT UNIT

**PRIME VENDOR FOOD
DISTRIBUTION**

Statewide Mandatory Contract

Report Released

October 16, 2007



STATE OF OKLAHOMA
PRIME VENDOR FOOD DISTRIBUTION
STATEWIDE MANDATORY CONTRACT AUDIT
AUDIT PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2006

TABLE OF CONTENTS

PURPOSE, OBJECTIVE AND SCOPE 1
METHODOLOGY 1
EXECUTIVE SUMMARY 2
AUDIT RESULTS..... 5
OVERALL CONCLUSION 19

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**STATE OF OKLAHOMA
PRIME VENDOR FOOD DISTRIBUTION
STATEWIDE MANDATORY CONTRACT AUDIT
AUDIT PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2006**

PURPOSE, OBJECTIVE AND SCOPE

The Department of Central Services has completed an audit of the statewide mandatory contracts for prime vendor food distribution. The audit encompassed two separate contracting periods: January 1, 2005 to June 30, 2006 for SW00156 contract and July 1, 2006 to December 31, 2006 for SW70156 contract. The vendor for these contracts is Sysco Food Services of Oklahoma, LLC.

The purpose of this report is to communicate the results of the audit. The objectives of this audit were to:

- Verify deliveries were made within 3 working days after receipt of order;
- Ensure prices paid by authorized users are in accordance with the pricing structure stated within the contract;
- Verify authorized users received the proper guarantees, credits, discounts and allowances in accordance with the contract;
- Verify minimum fill rate guarantee;
- And, ensure state agencies are utilizing the statewide mandatory contract.

This audit was performed pursuant to 74 O.S. § 85.5.E. and in accordance with generally accepted *Government Auditing Standards*.

METHODOLOGY

- Interviews were conducted with the Branch Chief and the Contracting Officer for the Department of Central Services.
- Interviews were conducted with the State Contract Manager and accounting personnel for the vendor.
- Obtained an understanding of the administration of the contract by the vendor.
- Examined a statistical and judgmental sample of commodity items ordered.
- Evaluated the overall compliance with contractual terms by the vendor.
- Examined and compared state agencies food and food related purchases.

**STATE OF OKLAHOMA
PRIME VENDOR FOOD DISTRIBUTION
STATEWIDE MANDATORY CONTRACT AUDIT
AUDIT PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2006**

EXECUTIVE SUMMARY

Organization

Sysco is the global leader in selling, marketing and distributing food products to approximately 400,000 restaurants, healthcare and educational facilities, lodging establishments and other customers who prepare meals away from home. The company's family of products also includes equipment and supplies for the foodservice and hospitality industries.

The mission statement of Sysco is "Helping Our Customers Succeed". The strategy of Sysco is to provide the lowest total procurement costs for its customers.

Key Personnel

Chris Davis, President/ CEO
Paul Randles, Vice President of Finance
Jeff Szostak, Vice President of Supply Chain
John Counts, Vice President of Sales
Kim Becker, Senior Director of Contract Sales
Allen Hill, Director of Profit Management
Elmer Bruel, Director of Inventory Management
Cindy Carter, State Contract Manager

Contract Background

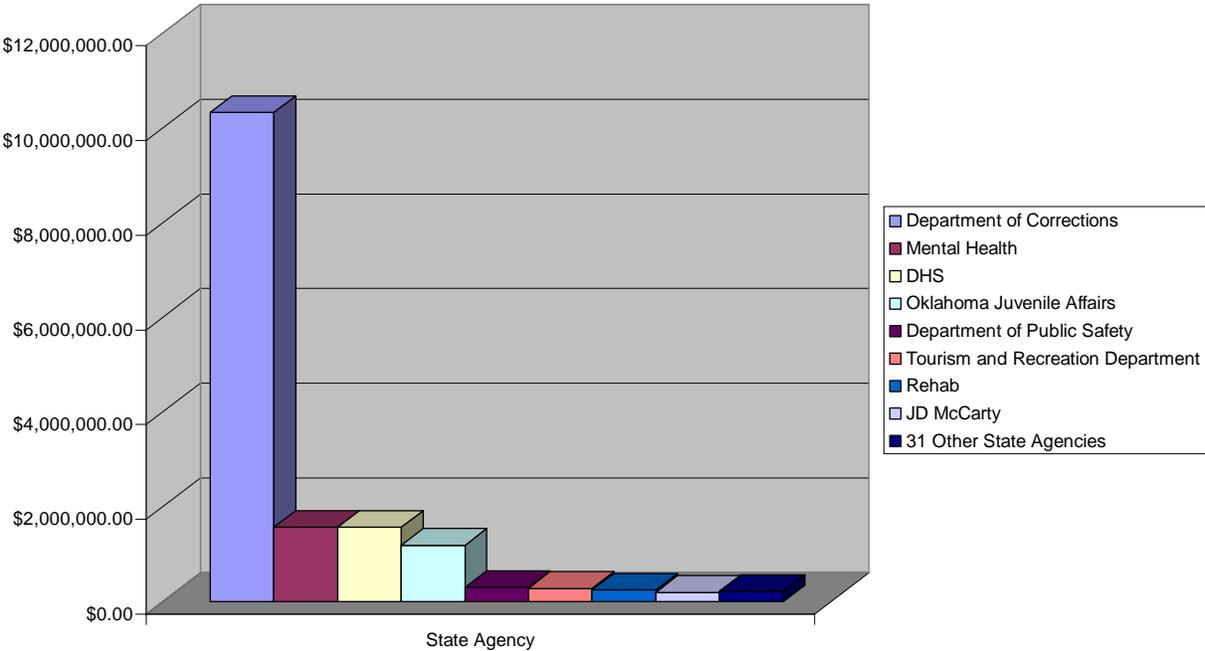
The Prime Vendor Food Contract services approximately 181 state agencies at approximately 634 delivery locations throughout the State of Oklahoma. The 634 delivery locations are inclusive of 66 food service delivery locations and delivery locations to eligible political subdivisions and entities. Sysco Food Services of Oklahoma, LLC is required to maintain a warehouse with adequate inventory from a location that can make deliveries to all state agencies and other defined eligible subdivisions and entities. Staple products and food goods must be distributed in accordance with the delivery schedules established by the users of the Prime Vendor Food Contract. Authorized users for the Prime Vendor Food distribution contract include all agencies of the State of Oklahoma as well as the following entities:

- All constitutional offices;
- The Legislature;
- The Judiciary;
- Cities, towns, municipalities, counties, and other political subdivisions of the State, including schools and other service districts;
- Authorities, commissions, institutions of higher education, and quasi-public agencies established for the benefit of the citizens of the State of Oklahoma;
- And, other eligible entities designated in writing by the State Purchasing Director.

**STATE OF OKLAHOMA
PRIME VENDOR FOOD DISTRIBUTION
STATEWIDE MANDATORY CONTRACT AUDIT
AUDIT PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2006**

For the contract period January 1, 2005 to June 30, 2006, there were 39 state agencies identified that made purchases from the Prime Vendor Food Contract. Of those 39 state agencies, 4 state agencies had expenditures for staple products and food goods in excess of \$1 million.

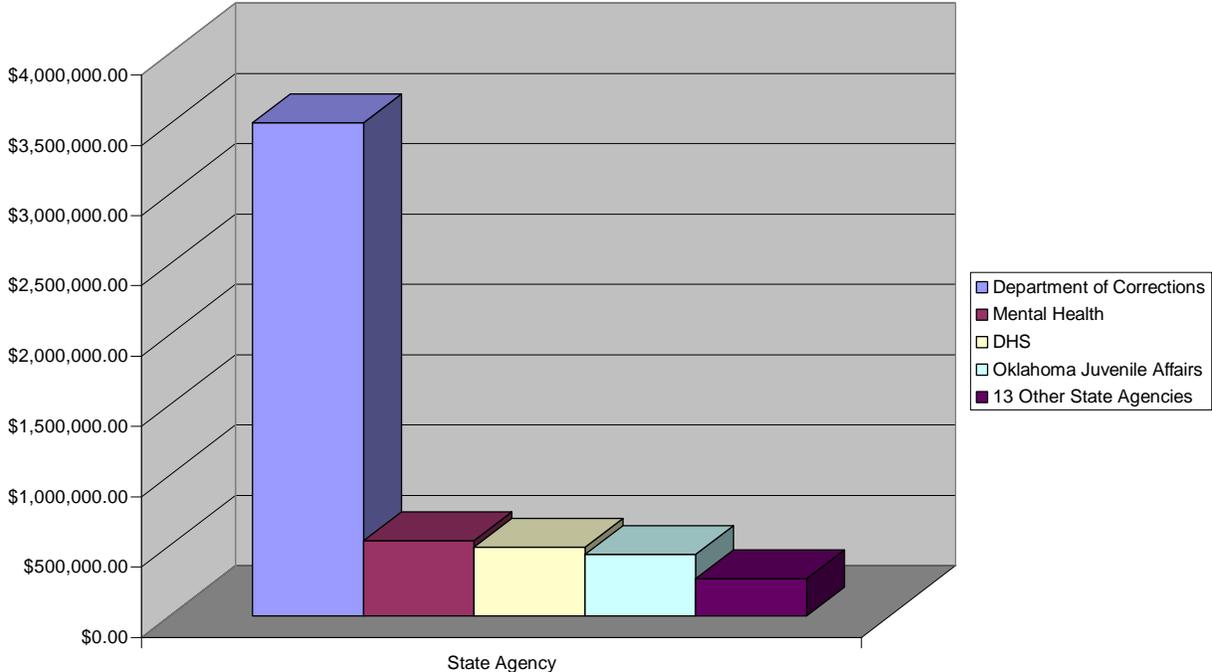
SW00156 Contract Users by Agency



**STATE OF OKLAHOMA
PRIME VENDOR FOOD DISTRIBUTION
STATEWIDE MANDATORY CONTRACT AUDIT
AUDIT PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2006**

For the contract period July 1, 2006 to December 31, 2006, there were 17 state agencies identified that made purchases from the Prime Vendor Food Contract. Of those 17 state agencies, 4 state agencies had expenditures for staple products and food goods in excess of \$400,000.

SW70156 Contract Users by Agency



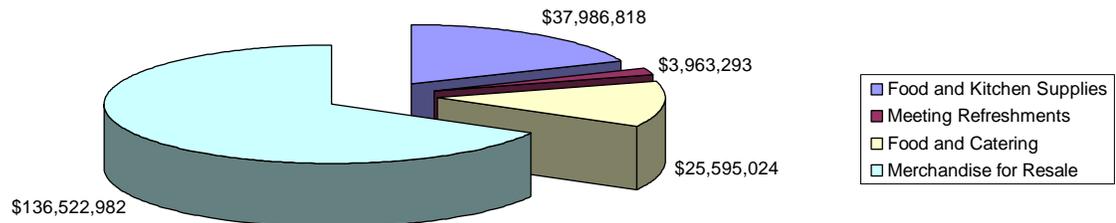
**STATE OF OKLAHOMA
PRIME VENDOR FOOD DISTRIBUTION
STATEWIDE MANDATORY CONTRACT AUDIT
AUDIT PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2006**

AUDIT RESULTS

State Agency Compliance Summary

We reviewed four object of expenditure codes related to food and resale merchandise for the contract periods January 1, 2005 to June 30, 2006- (SW00156) and July 1, 2006 to December 31, 2006 (SW70156) to determine if purchases for food and kitchen supplies were made in accordance with the statewide mandatory contract. The total expenditures for these object codes for the contract periods reviewed totaled over \$204 million.

Food and Food Related Expenditures by Account Code



Based upon procedures performed, we have determined Oklahoma state agencies have materially utilized the statewide prime vendor food contract.

Vendor Compliance Finding Summary

- Volume discount credits in the amount of \$911.36 were not applied to 52 state agency accounts. [Finding 07-SW00156-05](#)
- Unit price charged was in excess of market basket price for 1 of 84 (1%) statistical random sample individual items. Overcharge totals \$ 1,087.69. [Finding 07-SW70156-02](#)

**STATE OF OKLAHOMA
PRIME VENDOR FOOD DISTRIBUTION
STATEWIDE MANDATORY CONTRACT AUDIT
AUDIT PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2006**

- Unit price charged was in excess of market basket price for 1 of 16 (6%) judgmental sample individual items. Overcharge totals \$ 31.50. [Finding 07-SW0156-02](#)
- Unit price charged was in excess of market basket price for 2 of 13 (15%) judgmental sample individual items. Overcharge totals \$ 281.80. [Finding 07-SW70156-04](#)
- 27 of 118 (23%) individual items were unable to be tested due to the unavailability of the manufacturer's invoice for these items. [Finding 07-SW00156-03](#)
- 9 of 84 (11%) individual items were unable to be tested due to the unavailability of the manufacturer's invoice for these items. [Finding 07-SW00156-01](#)

Contract Overcharges and Credits Not Applied

In review of the unit cost charged for staple products and food goods for the contract period January 1, 2005 to December 31, 2006, we noted a total amount of \$1,400.99 in overcharges to state agencies. The \$1,400.99 in overcharges consists of [\\$281.80](#) under contract SW00156 and [\\$1,119.19](#) under contract SW70156. We also noted for the contract period January 1, 2005 to June 30, 2006 [\\$911.36](#) in volume discounts not applied to individual state agency accounts.

Audit Finding Details

(Findings and recommendations are reported based on audit significance.)

Finding [07-SW00156-05](#): Sysco Brand Discount Program

Criteria: State of Oklahoma Department of Central Services Prime Vendor- Food Contract SW00156 **Volume Discount Program** states:

The Sysco Brand Allowance is an added incentive for each agency and will be handled as follows:

If 25% of the State of Oklahoma's total quarterly purchases are on Sysco branded products an added incentive of 25% (.25%) of (one) 1% will be credited back to each state agency the month following the end of the quarter.

If 35% of the State of Oklahoma's total quarterly purchases are on Sysco branded products an added incentive of 35% (.35%) of (one) 1% will be credited back to each state agency the month following the end of the quarter.

If 45% of the State of Oklahoma's total quarterly purchases are on Sysco branded products an added incentive of 45% (.45%) of (one) 1% will be credited back to each state agency the month following the end of the quarter.

**STATE OF OKLAHOMA
PRIME VENDOR FOOD DISTRIBUTION
STATEWIDE MANDATORY CONTRACT AUDIT
AUDIT PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2006**

State of Oklahoma Department of Central Services Prime Vendor- Food Contract SW00156 Addendum No. 1 states in part:

The following is in addition to the Volume Discount Program Sysco Food Services has offered the State of Oklahoma for the purchase of the "Sysco Brand" products.

Any facility that purchases from State Contract SW00156 that has an average order size of \$5,000 or greater per quarter can be credited up to 55% of 1% on their Sysco branded products for that quarter.

Any facility that purchases from State Contract SW00156 that has an average order size between \$3,000 and \$4,999 per quarter can be credited up to 50% of 1% of the "Sysco Brand" products.

Condition: For the period January 1, 2005 to June 30, 2006, there were a total of 242,449 individual commodity items at a total cost of \$15,807,635.88 purchased by state agencies. Sysco Brand sales represent 55% (\$8,737,515.99) of this total. Sysco Brand credits were reviewed to ensure the credit was applied to all state agency accounts that were eligible to receive the credit. The following was noted:

- 52 state agency units did not receive Sysco Brand credit for the time period January 1, 2005 to June 30, 2006. Potential dollar value of credits not applied totals [\\$911.36](#).

	<u>CUSTOMER</u>	<u>TOTAL SALES</u>	<u>SYSCO BRAND SALES</u>	<u>% CREDIT</u>	<u>TOTAL CREDIT</u>
1	145771	\$238.48	\$158.08	0.45%	\$0.71
2	312280	\$21,823.46	\$15,626.40	0.45%	\$70.32
3	018515	\$246.39	\$246.39	0.45%	\$1.11
4	146738	\$111.81	\$31.41	0.45%	\$0.14
5	146274	\$185.86	\$121.43	0.45%	\$0.55
6	097063	\$824.47	\$667.47	0.45%	\$3.00
7	018101	\$10,719.59	\$8,346.83	0.45%	\$37.56
8	145631	\$3,688.21	\$502.27	0.45%	\$2.26
9	337741	\$2,965.29	\$443.24	0.45%	\$1.99
10	142299	\$220.82	\$113.62	0.45%	\$0.51
11	051516	\$1,464.69	\$599.41	0.45%	\$2.70
12	038596	\$679.76	\$486.40	0.45%	\$2.19
13	115196	\$7,016.62	\$6,376.12	0.45%	\$28.69
14	148528	\$811.30	\$811.30	0.45%	\$3.65
15	376418	\$777.24	\$777.24	0.45%	\$3.50
16	138297	\$5,083.53	\$4,065.68	0.45%	\$18.30
17	444273	\$62.82	\$62.82	0.45%	\$0.28
18	085720	\$1,335.78	\$1,160.40	0.45%	\$5.22
19	089342	\$228.35	\$121.60	0.45%	\$0.55
20	143800	\$277.98	\$21.78	0.45%	\$0.10
21	079855	\$428.55	\$108.30	0.45%	\$0.49
22	062398	\$1,437.40	\$668.80	0.45%	\$3.01

**STATE OF OKLAHOMA
PRIME VENDOR FOOD DISTRIBUTION
STATEWIDE MANDATORY CONTRACT AUDIT
AUDIT PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2006**

23	302893	\$1,245.68	\$1,245.68	0.45%	\$5.61
24	403469	\$36.48	\$36.48	0.45%	\$0.16
25	368902	\$48.64	\$48.64	0.45%	\$0.22
26	383091	\$949.92	\$145.92	0.45%	\$0.66
27	312322	\$188,993.23	\$123,740.33	0.45%	\$556.83
28	147504	\$1,200.52	\$1,200.52	0.45%	\$5.40
29	037879	\$427.00	\$81.00	0.45%	\$0.36
30	300475	\$36.48	\$36.48	0.45%	\$0.16
31	138461	\$2,115.06	\$1,809.67	0.45%	\$8.14
32	368894	\$228.55	\$155.24	0.45%	\$0.70
33	465468	\$133.44	\$24.32	0.45%	\$0.11
34	039255	\$243.20	\$243.20	0.45%	\$1.09
35	083485	\$10,335.49	\$4,683.06	0.45%	\$21.07
36	085381	\$44,279.89	\$16,988.83	0.45%	\$76.45
37	011569	\$3,320.15	\$1,413.64	0.45%	\$6.36
38	010009	\$879.05	\$729.60	0.45%	\$3.28
39	031401	\$4,808.25	\$2,821.70	0.45%	\$12.70
40	145722	\$283.82	\$196.50	0.45%	\$0.88
41	062018	\$1,243.28	\$787.68	0.45%	\$3.54
42	150151	\$243.20	\$243.20	0.45%	\$1.09
43	292581	\$1,910.80	\$972.80	0.45%	\$4.38
44	145862	\$341.04	\$170.24	0.45%	\$0.77
45	084830	\$1,065.51	\$928.44	0.45%	\$4.18
46	062091	\$1,018.90	\$337.59	0.45%	\$1.52
47	369801	\$106.64	\$24.32	0.45%	\$0.11
48	084855	\$145.92	\$145.92	0.45%	\$0.66
49	444281	\$10.47	\$10.47	0.45%	\$0.05
50	146068	\$2,097.33	\$797.05	0.45%	\$3.59
51	040675	\$466.40	\$182.40	0.45%	\$0.82
52	081430	\$1,879.92	\$807.92	0.45%	\$3.64
					\$911.36

Cause: Unknown.

Effect or Potential Effect: By improperly calculating the volume discount, all state agencies are not afforded the opportunity to participate in the volume discount program.

Recommendation: We recommend the Vendor review calculations for the credits related to the Volume Discount Program for the time period January 1, 2005 to June 30, 2006. For those agencies / units that did not receive a credit based on the percentage of the State's quarterly purchases and the agency's average order size, the appropriate amount should be credited to the affected agencies/ units.

Management's Response

Date: 9/21/07

Response: Partially Concur- We concur with the findings of the Auditors. The majority of the findings were for less than \$10.00 for the combined six quarters. Since these customers did not make regular purchases it would have been administratively more expensive for them to take the credit than to not have been issued the credit at all. We have rerun the reporting related to the Volume Discount Program for the entire period. We are willing to issue credits of any amount in order to close this issue. Since it would be more expensive for the state to process the small credits we would like to know what

**STATE OF OKLAHOMA
PRIME VENDOR FOOD DISTRIBUTION
STATEWIDE MANDATORY CONTRACT AUDIT
AUDIT PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2006**

the smallest dollar amount you would like placed on the account. Requested credits will be issued as per the table below:

Customer	Customer Name	Total Sales	Brand Sales	% Credit	Aggregate
18101	Dept Of Corrections	10,615.01	8,279.64	0.45%	37.26
83485	Ok Tourism & Recreation	8,304.22	3,487.77	0.45%	15.69
85381	Ok Dept. Of Agriculture	43,689.41	16,351.76	0.45%	73.58
115196	Dept. Of Transportation	5,897.53	5,926.20	0.45%	26.67
138297	Dept. Of Wildlife +	5,730.21	4,026.41	0.45%	18.12
312280	Chickasaw Pointe Golf Course	19,387.41	13,209.85	0.45%	59.44
312322	Lake Texoma Lodge	188,683.79	130,244.44	0.45%	586.1

Additional credits identified in our review have been issued as per the table below:

Customer	Customer Name	Total Sales	Brand Sales	% Credit	Aggregate
15404	City Of Altus	2,807.42	2,820.10	0.45%	12.69
23952	Cleveland Cnty Juv Detn	37,446.99	19,453.83	0.45%	87.54
31286	Ou College Of Dentistry	4,390.51	3,389.61	0.45%	15.25
58768	Lakeside Home	26,236.29	14,382.97	0.45%	64.72
61424	Lafortune Clubhouse Grill	22,875.15	9,117.34	0.45%	41.03
66878	Social Services Dept	18,835.89	10,126.24	0.45%	45.57
66894	South Lakes Clubhouse Grill	12,074.16	4,852.26	0.45%	21.84
70185	Tulsa Juvenile Detent	79,185.39	38,665.16	0.45%	173.99
83717	Oci Agri/James Crabtree	7,508.97	6,094.92	0.45%	27.43
104224	Okla City Public Schools +	29,311.55	23,569.95	0.45%	106.06
108472	Trails Elem Sch	29,191.36	11,096.65	0.45%	49.93
108480	North Middle Sch	33,772.83	11,010.55	0.45%	49.55
108498	Mustang Valley Sch	22,456.92	6,730.29	0.45%	30.29
108506	Mustang Elem Sch	31,568.31	11,515.97	0.45%	51.82
108548	Mustang High School	71,707.56	14,332.94	0.45%	64.5
308486	Mustang Mid-High	25,115.25	5,642.67	0.45%	25.39
309575	Oci/Dick Conner	4,207.89	4,226.90	0.45%	19.02

Corrective Action Plan

Anticipated Completion Date: Not Applicable

Corrective Action Planned: There is no volume discount program requiring credits to be calculated and placed on the customer accounts on the current State Contract SW70156. Sysco Oklahoma is also not selling the towel and tissue contract which complicated the program.

**STATE OF OKLAHOMA
PRIME VENDOR FOOD DISTRIBUTION
STATEWIDE MANDATORY CONTRACT AUDIT
AUDIT PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2006**

Finding [07-SW70156-02](#): Cost Verification

Criteria: State of Oklahoma Department of Central Services Prime Vendor- Food Distribution Request for Proposal **2.7 Price Changes** states:

As the delivered price allows for changes to the prime vendor's unit cost, the State of Oklahoma may audit the contractor invoices to verify pricing (see separate Audit Clause). Because there will be a considerable lapse between opening of the RFP's and the initiation of the contract, the Prime Vendor being considered for award may be required to demonstrate why changes in cost (and consequently price to the State) differ from pricing in Market Basket. Unwarranted or unsubstantiated changes may result in award to a different Vendor.

State of Oklahoma Department of Central Services Prime Vendor- Food Distribution Request for Proposal **11.7 Audits by Department of Central Services/Contract Administrator/ Audit Section** states:

The Contract Administrator, at his discretion, **may** request "Reimbursable Unit Cost" invoices for any item(s) that have been purchased by a State of Oklahoma facility or state entity for the purposes of auditing. The Prime Vendor must supply the invoices and all related documentation including bills of lading, freight invoices or any other documentation affecting the net delivered price within fourteen (14) calendar days of the request. Once these invoices are cleared, a written report will be made and submitted to the Contract Administrator. If the Contract Administrator decides that further action is warranted, the Contract Administrator will meet with the Prime Vendor Account Executive for resolution of the problem.

Condition: For the period July 1, 2006 to December 31, 2006, there were a total of 75,304 individual commodity items at a total cost of \$5,111,957.66 purchased by state agencies. From this population, a random statistical sample was pulled for substantive testing. Sample tested was 84 individual commodity items at a total cost of \$16,909.10. During substantive testing, we noted:

1. Unit price charged was in excess of market basket price for 1 (1%) of 84 individual items. Market basket price is firm through 09.30.2007. Details are noted below.

CUSTOMER	DATE	ITEM	# OF CASES	PRICE CHARGED	MARKET BASKET PRICE	DIFF IN UNIT PRICE	TOTAL AMOUNT OVERCHARGED
031351	09.20.06	Granulated Sugar- Xfine	50	\$24.06	\$24.05	\$0.01	\$0.50

All purchases of the above item during July 1, 2006 through December 31, 2006 were reviewed to determine if any further instances of unit price overcharge occurred. Results of the review are noted below.

**STATE OF OKLAHOMA
PRIME VENDOR FOOD DISTRIBUTION
STATEWIDE MANDATORY CONTRACT AUDIT
AUDIT PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2006**

<u>TIME PERIOD</u>	<u>UNIT PRICE CHARGED</u>	<u>UNIT CONTRACT PRICE</u>	<u>DIFF IN PRICE</u>	<u># OF CASES</u>	<u>OVERCHARGE/ (UNDERCHARGED)</u>
07.01.06 to 07.31.06 & 09.04.06 to 11.30.06	\$24.06	\$24.05	\$0.01	3,328	\$33.28
08.01.06 to 08.31.06	\$25.16	\$24.05	\$1.11	693	\$769.23
12.18.06 to 12.19.06	\$20.49	\$24.05	(\$3.56)	3	(\$10.68)
12.01.06 to 12.29.06	\$24.37	\$24.05	\$0.32	923	\$295.36
					\$1,087.19

For the period July 1, 2006 to December 31, 2006, there were a total of 75,304 individual items at a total cost of \$5,111,957.66 purchased by state agencies. A judgmental sample was selected to determine if the unit price for contract items was consistent between state agencies. Total sample tested was 16 individual commodities at a total cost of \$4,157.34. We noted the following during our review:

- Unit price charged was in excess of market basket price for 1 (6%) of 16 individual commodities. Contract price is \$30.25 per case.

<u>CUSTOMER</u>	<u>DATE</u>	<u>ITEM</u>	<u># OF CASES</u>	<u>PRICE CHARGED</u>	<u>CONTRACT PRICE</u>	<u>DIFF IN PRICE</u>	<u>TOTAL AMOUNT OVERCHARGED</u>
446088	07.26.06	Drink Base-Original	1	\$34.75	\$30.25	\$4.50	\$4.50

All purchases of the above item during July 1, 2006 through December 31, 2006 were reviewed to determine if any further instances of unit price overcharge occurred. Results of the review are noted below.

<u>CUSTOMER</u>	<u>DATE</u>	<u># OF CASES</u>	<u>PRICE CHARGED</u>	<u>CONTRACT PRICE</u>	<u>DIFF IN PRICE</u>	<u>OVER/ (UNDER)</u>
446088	07.19.06	1	\$34.75	\$30.25	\$4.50	\$4.50
446088	09.13.06	1	\$37.75	\$30.25	\$7.50	\$7.50
446088	11.08.06	1	\$37.75	\$30.25	\$7.50	\$7.50
446088	12.27.06	1	\$37.75	\$30.25	\$7.50	\$7.50
						\$27.00

Cause: Typographical error when entering the cost into the system.

Effect or Potential Effect: By inputting the incorrect cost into the system, state agencies are overpaying or underpaying on commodities ordered and the vendor is receiving more or less monies than they are entitled to.

**STATE OF OKLAHOMA
PRIME VENDOR FOOD DISTRIBUTION
STATEWIDE MANDATORY CONTRACT AUDIT
AUDIT PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2006**

Recommendation: The Vendor concurs with the items noted during our substantive testing. Vendor is willing to credit the state agency for the amount overpaid related to the extra fine granulated sugar. Pricing adjustments of \$184.90 for all sales to customer 446088 will be applied for overcharged related to the original drink base.

We recommend the Vendor examine and research the additional instances noted of unit price charged in excess of the market basket price for July 1, 2006 to December 31, 2006. After completing the research and examination and it is determined that market basket prices were not charged, all affected state agencies should receive a credit for the total amount overpaid.

We further recommend the Vendor implement a process whereby unit prices charged are compared to market basket prices to ensure prices charged are in accordance to contractual terms.

This finding will be forwarded to the Central Purchasing Contracting Officer for this contract for resolution of outstanding credits to be received by state agencies.

Management's Response

Date: 9/21/07

Response: Partially Concur- Granulated Sugar-Xfine IMPERIAL Brand had a firm market basket price of \$24.05 through 9/30/06 not 9/30/07. The SUPC for that brand is 4045076. All sales of this item during the firm market price period were sold at the Market Basket price of \$24.05. The 50 cases that were sold to customer number 031351 on 9/20/06 were of a similar SYSCO CLASSIC branded item, SUPC 4782694.

Drink Base- Original is not on the market basket. We tracked sales of the products to all State of Oklahoma customers for the period in question. We have issued credits of \$184.90 to 446088 on CM# 706280075 and \$85.17 to 051508 on CM# 706280074 for all of the drink bases that were on the Prisons drink base deviated agreement.

Corrective Action Plan

Anticipated Completion Date: Currently in effect

Corrective Action Planned: We now have additional staff that enables us to verify the accuracy of every agreement entered into our system in a timely matter.

Auditor's Response

Date: 10/03/2007

Response: This finding was submitted to the Vendor to address the difference noted in the unit price charged for the granulated sugar. The response received erroneously indicated that the \$24.05 unit price was firm through 09/30/2007. This information was used to determine additional instances of overcharges.

STATE OF OKLAHOMA
PRIME VENDOR FOOD DISTRIBUTION
STATEWIDE MANDATORY CONTRACT AUDIT
AUDIT PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2006

Finding [07-SW00156-04](#): Cost Verification

Criteria: State of Oklahoma Department of Central Services Prime Vendor- Food Distribution Invitation to Bid **SP-18 Price Adjustments** states:

Manufacturer's price increases, or other increases in the cost of doing business may not be passed on to the State of Oklahoma. Any price decrease effectuated during the contract period by reason of market change shall be passed onto the State of Oklahoma. No price reduction on a statewide contract may be offered to an agency unless that reduction is offered to all agencies.

State of Oklahoma Department of Central Services Prime Vendor- Food Distribution Invitation to Bid **Definition of Cost Price Changes** states in part:

... Since price changes are permitted, the State of Oklahoma may audit the contractor invoices to verify pricing (see separate Audit Clause). Because there will be a considerable time lapse between opening of the RFP's and the initiation of the contract, the Prime Vendor being considered for award may be required to demonstrate why changes in cost (and consequently price to the State) differ from pricing on Market Basket. Unwarranted or unsubstantiated changes may result in award to a different vendor.

Condition: For the period January 1, 2005 to June 30, 2006, there were a total of 225,640 individual commodity items at a total cost of \$15,641,755.15 purchased by state agencies. A judgmental sample was selected to determine if the unit price for contract items was consistent between state agencies. Total sample tested was 13 individual commodities at a total cost of \$846.09. We noted the following during our review:

- Unit price charged was in excess of contract price for 2 (15%) of 13 individual items. Total amount overcharged including instances noted in population is [\\$281.80](#). Details are noted below.

Chili

CUSTOMER	DATE	ITEM	# OF CASES	PRICE CHARGED	MARKET BASKET PRICE	DIFF IN UNIT PRICE	TOTAL AMOUNT OVERCHARGED
312322	02.23.2006	Chili	1	\$44.71	\$34.09	\$10.62	\$10.62

**STATE OF OKLAHOMA
PRIME VENDOR FOOD DISTRIBUTION
STATEWIDE MANDATORY CONTRACT AUDIT
AUDIT PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2006**

All purchases of the above item during January 1, 2005 through June 30, 2006 were reviewed to determine if any further instances of unit price overcharge occurred. Results of the review are noted below.

<u>CUST</u>	<u>DATE</u>	<u>UNIT PRICE CHARGED</u>	<u>UNIT CONTRACT PRICE</u>	<u>DIFF IN PRICE</u>	<u># OF CASES</u>	<u>OVERCHARGE/ (UNDERCHARGED)</u>
312322	06.09.2005	\$43.47	\$33.15	10.32	1	\$10.32
034249	09.29.2005	\$32.51	\$33.15	(\$0.64)	4	(\$2.56)
034249	10.27.2005	\$32.51	\$33.15	(\$0.64)	2	(\$1.28)
312322	01.12.2006	\$44.71	\$34.09	\$10.62	1	\$10.62
312322	02.02.2006	\$44.71	\$34.09	\$10.62	2	\$21.24
312322	04.04.2006	\$44.71	\$34.09	\$10.62	1	\$10.62
312322	05.02.2006	\$46.05	\$34.09	\$11.96	1	\$11.96
312322	05.18.2006	\$46.05	\$34.09	\$11.96	1	\$11.96
034249	06.15.2006	\$44.64	\$34.09	\$10.55	3	\$31.65
						\$104.53

Drink Base

<u>CUSTOMER</u>	<u>DATE</u>	<u>ITEM</u>	<u># OF CASES</u>	<u>PRICE CHARGED</u>	<u>MARKET BASKET PRICE</u>	<u>DIFF IN UNIT PRICE</u>	<u>TOTAL AMOUNT OVERCHARGED</u>
051508	04.24.2006	Drink Base	1	\$35.92	\$30.87	\$5.05	\$5.05

All purchases of the above item during January 1, 2005 through June 30, 2006 were reviewed to determine if any further instances of unit price overcharge occurred. Results of the review are noted below.

<u>CUST</u>	<u>DATE</u>	<u>UNIT PRICE CHARGED</u>	<u>UNIT CONTRACT PRICE</u>	<u>DIFF IN PRICE</u>	<u># OF CASES</u>	<u>OVERCHARGE/ (UNDERCHARGED)</u>
031930	04.03.2006 & 04.10.2006	\$35.92	\$30.87	\$5.05	25	\$126.25
025361	04.04.2006	\$35.92	\$30.87	\$5.05	2	\$10.10
023986	04.04.2006	\$35.92	\$30.87	\$5.05	2	\$10.10
017954	04.05.2006 & 04.12.2006	\$35.92	\$30.87	\$5.05	9	\$45.45
446088	04.05.2006 & 05.03.2006	\$35.92	\$30.87	\$5.05	2	\$10.10
038950	04.13.2006	\$35.92	\$30.87	\$5.05	2	\$10.10
025361	05.16.2006	\$25.82	\$30.87	(\$5.05)	2	(\$10.10)
023986	05.16.2006	\$25.82	\$30.87	(\$5.05)	4	(\$20.20)
017954	05.17.2006	\$25.82	\$30.87	(\$5.05)	5	(\$25.25)
446088	06.14.2006	\$35.92	\$30.87	\$5.05	1	\$5.05
						\$161.60

Cause: Typographical error when entering the cost into the system.

**STATE OF OKLAHOMA
PRIME VENDOR FOOD DISTRIBUTION
STATEWIDE MANDATORY CONTRACT AUDIT
AUDIT PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2006**

Effect or Potential Effect: By inputting the incorrect cost into the system, state agencies are overpaying or underpaying on commodities ordered and the vendor is receiving more or less monies than they are entitled to.

Recommendation: The Vendor concurs with the items noted during our substantive testing. Vendor is willing to credit the account of customer 312322 for \$86.40 for the amount overpaid for the chili. Vendor is also willing to credit the account of customer 51508 for \$85.17 for the amount overpaid for all drink bases purchased.

We recommend the Vendor examine and research the additional instances noted of unit price charged in excess of the contract price for January 1, 2005 to June 30, 2006. After completing the research and examination and it is determined that contract prices were not charged, all affected state agencies should receive a credit for the total amount overpaid or be billed for the portion of the unit price not paid.

We further recommend the Vendor implement a process whereby unit prices charged are compared to contract prices to ensure prices charged are in accordance to contractual terms.

This finding will be forwarded to the Central Purchasing Contracting Officer for this contract for resolution of outstanding credits to be received by state agencies.

Management's Response

Date: 9/21/07

Response: Partially Concur- We partially concur with the findings of the auditors. We tracked sales of the Chili SUPC 7006182 to all State of Oklahoma customers for the period in question. The contract in effect on 2/23/06 was effective from 8/1/05 to 5/31/06. We have issued credits of \$86.40 to 312322. The 6/15/06 sale to 034249 was after the end date of the deviated agreement so it was priced correctly.

We tracked the sales of all Drink Bases on the State of Oklahoma Prison deviated agreement. We issued a credit of \$85.17 for customer 051508 on CM# 706280074 as requested. Further research of the drink base pricing identified additional credits that total \$371.46. We issued a credit of \$103.81 to customer 017954 on CM# 709220003, a credit of \$40.40 to customer 023986 on CM 709220004, a credit of \$40.40 to customer 025361 on CM# 709220005, a credit of \$126.25 to customer number 031930 on CM# 709210006, and a credit of \$60.60 to customer 038950 on CM# 709220007. The overcharge of \$5.05 for customer number 446088 on 6/14/06 has already been adjusted as part of the \$184.90 CM# 706280075.

Corrective Action Plan

Anticipated Completion Date: Currently in effect

Corrective Action Planned: We now have additional staff that enables us to verify the accuracy of every agreement entered into our system in a timely matter.

**STATE OF OKLAHOMA
PRIME VENDOR FOOD DISTRIBUTION
STATEWIDE MANDATORY CONTRACT AUDIT
AUDIT PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2006**

Finding [07-SW00156-03](#): Contract Terms

Criteria: State of Oklahoma Department of Central Services Prime Vendor- Food Distribution Invitation to Bid **GP-19 Audit and Records** (b) states:

The successful bidder is required to retain all records relative to this contract for the duration of the contract term and for a period of three years following completion and/ or termination of the contract. If an audit, litigation, or other action involving such records is started before the end of the three year period, the records are required to be maintained for three years from the date that all issues arising out of the action are resolved or until the end of the three year retention period, whichever is later.

Condition: For the period January 1, 2005 to June 30, 2006, there were a total of 225,640 individual items at a total cost of \$15,641,755.15 purchased by state agencies. From this population, a random statistical sample was pulled for substantive testing. Sample tested was 118 individual items at a total cost of \$23,691.38. We noted the following during substantive testing:

- The unit cost for 27 individual items (23%) was unable to be tested. The manufacturer's invoices which provides details related to invoice cost, freight costs, allowances, and mark-up cost were not available for review. The total sales price sum for these 27 items is \$7,769.25 (33% of the sample dollar population). Seventy percent (19 / 27) of the missing manufacturer's invoices (\$6,145.83) were from the time period January 1, 2005 to March 31, 2005.

Cause: Manufacturer's invoices could not be located by the vendor.

Effect or Potential Effect: By not verifying the unit price charged with the manufacturer's invoices, it cannot be determined if the unit price charged is in accordance with the terms of the contract.

Recommendation: We recommend the vendor develop a filing system that ensures manufacturer's invoices are readily and easily available per the requirements of the audit clause and cost verification sections of the statewide contract.

This finding will be forwarded to the Central Purchasing Contracting Officer for this contract.

Management's Response

Date: 9/21/07

Response: Concur- We concur with the findings of the Auditors. While our filing system allows us to find manufactures invoices by vendor number and then date after a substantial period of time we lose the connection between the item number and the vendor number. Since many item numbers can be purchased from different vendor numbers at different points of time it becomes impractical to pull the invoice that supports a price on a particular day. In the past Sysco Oklahoma has been audited closer to the audit period and has never had an issue with locating the appropriate documentation.

**STATE OF OKLAHOMA
PRIME VENDOR FOOD DISTRIBUTION
STATEWIDE MANDATORY CONTRACT AUDIT
AUDIT PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2006**

Corrective Action Plan

Anticipated Completion Date: Undetermined

Corrective Action Planned: We would ask that future audits be performed closer to the audit period in order to avoid this issue. In addition we will work with our corporate IT department to develop a better way to archive and restore the information more readily. Sysco Oklahoma is analyzing making a significant capital investment in a document imaging system which should help alleviate this type of problem in the future.

Finding [07-SW70156-01](#): Contract Terms

Criteria: State of Oklahoma Department of Central Services Prime Vendor- Food Distribution Request for Proposal 11.7 **Audits by Department of Central Services/Contract Administrator/ Audit Section** states:

The Contract Administrator, at his discretion, **may** request "Reimbursable Unit Cost" invoices for any item(s) that have been purchased by a State of Oklahoma facility or state entity for the purposes of auditing. The Prime Vendor must supply the invoices and all related documentation including bills of lading, freight invoices or any other documentation affecting the net delivered price within fourteen (14) calendar days of the request. Once these invoices are cleared, a written report will be made and submitted to the Contract Administrator. If the Contract Administrator decides that further action is warranted, the Contract Administrator will meet with the Prime Vendor Account Executive for resolution of the problem.

Condition: For the period July 1, 2006 to December 31, 2006, there were a total of 75,304 individual items at a total cost of \$5,111,957.66 purchased by state agencies. From this population, a random statistical sample was pulled for substantive testing. Sample tested was 84 individual items at a total cost of \$16,909.10. We noted the following during substantive testing:

1. The unit cost for 9 individual items (11%) was unable to be tested. The manufacturer's invoices which detail the invoice cost, freight cost, allowances, and mark-up cost were not available for review. 3 (33%) of 9 of these individual items were for July 1, 2006 to September 30, 2006. The total sales price sum for these 9 items is \$1,088.85 (6% of the sample dollar population).

- 2 (22%) of the 9 individual items were supported by manufacturer's invoices for subsequent dates within the audit period.

For the period July 1, 2006 to December 31, 2006, there were a total of 75,304 individual items at a total cost of \$5,111,957.66 purchased by state agencies. A judgmental sample was selected to determine if the unit price for contract items was consistent between state agencies. Total sample tested was 16 individual commodities at a total cost of \$4,157.34. We noted the following during our review:

**STATE OF OKLAHOMA
PRIME VENDOR FOOD DISTRIBUTION
STATEWIDE MANDATORY CONTRACT AUDIT
AUDIT PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2006**

2. The unit cost for 1 individual item (6%) was unable to be tested. The manufacturer's invoices which detail the invoice cost, freight cost, allowances, and mark-up cost were not available for review. The total sales price sum for this one item is \$1,265.00 (30% of the judgmental sample dollar population).

This individual item was supported by a manufacturer's invoice for the testing of this same item performed for the random statistical sample.

Cause: Manufacturer's invoices could not be located by the vendor.

Effect or Potential Effect: By not verifying the unit price charged with the manufacturer's invoices, it cannot be determined if the unit price charged is in accordance with the terms of the contract.

Recommendation: We recommend the vendor develop a filing system that ensures manufacturer's invoices are readily and easily available per the requirements of the audit clause and cost verification sections of the statewide contract.

This finding will be forwarded to the Central Purchasing Contracting Officer for this contract.

Management's Response

Date: 9/21/07

Response: Partially Concur- We concur with the findings of the Auditors. While our filing system allows us to find manufactures invoices by vendor number and then date after a substantial period of time we lose the connection between the item number and the vendor number. Since many item numbers can be purchased from different vendor numbers at different points of time it becomes impractical to pull the invoice that supports a price on a particular day. In the past Sysco Oklahoma has been audited closer to the audit period and has never had an issue with locating the appropriate documentation.

Corrective Action Plan

Anticipated Completion Date: Undetermined

Corrective Action Planned: We would ask that future audits be performed closer to the audit period in order to avoid this issue. In addition we will work with our corporate IT department to develop a better way to archive and restore the information more readily. Sysco Oklahoma is analyzing making a significant capital investment in a document imaging system which should help alleviate this type of problem in the future.

**STATE OF OKLAHOMA
PRIME VENDOR FOOD DISTRIBUTION
STATEWIDE MANDATORY CONTRACT AUDIT
AUDIT PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2006**

OVERALL CONCLUSION

Based upon our audit, we have determined Sysco Food Services of Oklahoma, LLC has materially complied with the objectives reviewed; however, there were some exceptions noted. Some of these notable exceptions were related to inability to locate manufacturer's invoices for review and unit price overcharge for select commodity items. Sysco Food Services of Oklahoma, LLC has implemented corrective actions, which we believe will ensure the Vendor will comply, in all material respects, with the aforementioned requirements.