



DATE: September 3, 2008

TO: KEN NERLAND, Director
JASON MACDONALD, Purchasing Manager
General Services Department

THROUGH: RENENA SMITH, Budget Director
Budget and Management Studies Division

FROM: BOB KOURY, Principal Internal Auditor
BILL RICHARDS, Internal Auditor
MARY VIANCOURT, Internal Auditor
Budget and Management Studies Division - Internal Audit

SUBJECT: LIMITED SCOPE REVIEW OF OFFICE DEPOT'S INVOICE PRICING/
DISCOUNTING

Attached is the Final Report for the Limited Scope Review of Office Depot's Invoice Pricing/Discounting. This review was requested by the Purchasing Manager. Internal Audit wishes to thank you and your staff for their cooperation and assistance in performing this review.

City and Department Management has responsibility for implementation of Internal Audit recommendations and for establishing an effective system of internal controls. Internal Audit believes the implementation of our audit recommendations to the best of your department's ability will aid your Department and City Management in accomplishing the Key Objectives of Customer Satisfaction (citywide), Employee Satisfaction (internally) and Financial Management.

Internal Audit will perform a follow-up audit six to twelve months after this report is issued to verify that each recommendation has been implemented or that the issue documented in the finding has been resolved in a manner that addresses the weakness or risk identified. The follow-up audit is performed in accordance with AO 1-12 and Government Auditing Standards.

If you have any questions or we can be of any further assistance to you or your staff, please do not hesitate to contact Bob Koury, Principal Internal Auditor, at 621-7072.

Attachments

cc: Alan Autry, Mayor
Council Members
Andrew T. Souza, City Manager
Bruce Rudd, Assistant City Manager
Gary Watahira, Deputy City Manager
Paul Schramm, Supervising Buyer, General Services Department
Karen Bradley, Interim Finance Director/City Controller
Pedro Rivera, Senior Budget Analyst

INTERNAL AUDIT



FINAL REPORT

**General Services Department
Purchasing Division**

**Limited Scope Review of Office Depot's Invoice
Pricing/Discounting**

Audit Number 08-0019

**Performed by:
Mary Viancourt, Internal Auditor
Bill Richards, Internal Auditor**

Issued on September 3, 2008

City of Fresno
Limited Scope Review of Office Depot’s Invoice Pricing/Discounting

TABLE OF CONTENTS

EXECUTIVE SUMMARY i

INTRODUCTION

Background 1

Audit Objectives 1

Audit Scope and Methodology 1

RESULTS OF LIMITED SCOPE REVIEW

Finding 1 – Lack of Formalized (written) Instructions for Ordering Office Depot Products.....2

Finding 2 – Lack of Formalized Training of Departmental Personnel for Ordering Office Depot Products3

Finding 3 – Inconsistency in Office Depot Catalog Prices, Online Prices, and Discount Prices4

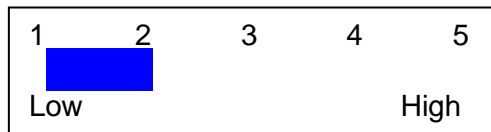
Finding 4 – Unclear and Confusing Discount Percentages4

Executive Summary

Introduction:

Internal Audit conducted a limited scope review of Office Depot's Invoice Pricing/Discounting to the City of Fresno under a piggyback arrangement to the County of Los Angeles, California's contract with Office Depot. This review was requested by the City of Fresno's Purchasing Manager.

Risk is the degree of or the lack of adequate internal controls, management oversight, and fiscal responsibility. Based upon Internal Audit's findings, Purchasing's risk is low.



Key Issues Identified:

- The Purchasing Division does not have formalized (written) instructions for ordering Office Depot products.
- The Purchasing Division has not conducted formalized training of Departmental personnel for ordering Office Depot products.
- The City of Fresno does not have its own specific contract with Office Depot – It assumes a piggyback on the County of Los Angeles contract that appears somewhat difficult to enforce or comply with due to varying market conditions.

Risks Identified:

- Designated City personnel purchasing products from Office Depot need training to obtain adequate knowledge to perform their purchasing functions and ensure appropriate discounts are realized.
- The existing piggyback arrangement is limiting for the City of Fresno. Specific conditions of compliance are drafted with the County of Los Angeles and may not be applicable locally. The market conditions in Los Angeles County and Fresno also make the piggyback arrangement difficult to implement and monitor.

Recommendations to Management:

- The Purchasing Manager or designated employee should draft and distribute formalized (written) instructions to all City Departments for the ordering of Office Depot products to ensure consistency and cost savings citywide.

- The Purchasing Manager or designated employee should conduct formal training sessions to ensure all designated Departmental personnel who order and pay for products from Office Depot have the knowledge to perform their purchasing functions to ensure appropriate prices/discounts are being realized citywide.
- The Purchasing Manager should meet with the Office Depot representative to determine if the price paid was the discount price in accordance with the piggybacked County of Los Angeles and Office Depot Contract. Additionally, all available discount options should be discussed as well as Office Depot reporting solutions to assist the Purchasing Division in monitoring the discounts.
- The Purchasing Manager and staff should initiate a Request for Proposal process to identify the most cost effective and efficient office supply vendor for the City of Fresno.

INTRODUCTION

Background

The Purchasing Manager contacted and met with Internal Audit on April 11, 2008 to discuss the feasibility of Internal Audit conducting a limited scope review of Office Depot products purchased to determine whether the City of Fresno received the appropriate discount prices. The City of Fresno's Purchasing Division currently piggybacks onto the County of Los Angeles, California's Office Depot Contract, which is effective January 2, 2006 through January 1, 2010.

Audit Objectives

Internal Audit's primary objectives for this limited scope review were: 1) To determine if the City of Fresno is paying the discount price for the 500 Core Items listed on Office Depot's website; and 2) To determine whether the City of Fresno is paying the discount price per the U.S. Communities [Blue Book](#) Catalog; and 3) To determine whether the City of Fresno is receiving the discounts listed in the County of Los Angeles's Office Depot Contract Exhibits for items not discounted on the Web or in the [Blue Book](#). While performing this review, we also considered whether improvements could be made to strengthen internal controls related to the Office Depot office supplies processes and to enhance the operational efficiency and effectiveness of such processes for the City of Fresno.

Audit Scope and Methodology

Internal Audit performed the following procedures to understand how Office Depot products are purchased within the City and whether the amount paid is the discount price per the County of Los Angeles/Office Depot Contract.

- Received and reviewed the County of Los Angeles, California Office Depot Contract dated January 2, 2006 through January 1, 2010.
- Received and used the Office Depot Big Solutions Catalog dated June 2007 through June 2008 and the U.S. Communities [Blue/Green](#) Catalog dated January 2008 through June 2008 for List and Discount Prices.
- Received and used the Office Depot Online list of 500 Core products.
- Interviewed the Purchasing Manager and Supervising Buyer regarding the piggybacked Office Depot Contract and discounting procedures.
- Interviewed and observed the Purchasing Administrative Clerk II's processes and procedures for ordering supplies from Office Depot.
- Interviewed the Budget Division's Management Analyst I regarding her process for ordering supplies from Office Depot.
- Reviewed purchases ordered/paid for by the Purchasing Division from July 26, 2007 to February 22, 2008.

- Obtained and reviewed a sample of purchases ordered/paid for by the Parks Department from December 6 through 22, 2007 and the Police Department from November 1, 2007 to January 3, 2008.

RESULTS OF LIMITED SCOPE REVIEW

Finding 1 – Lack of Formalized (written) Instructions for Ordering Office Depot Products

The Purchasing Manager and staff indicated some Departments/Divisions order products online from Office Depot whereas others order by sending a FAX, calling the Office Depot representative and/or using the Office Depot Card or the new Cal Card.

The Purchasing Division has not established formalized (written) instructions for all City Departments/Divisions to follow when purchasing products from Office Depot. Per the Purchasing Manager, when the City initially piggybacked onto the County of Los Angeles Office Depot Contract, a memo was sent to all Departments.

The Purchasing Manager discussed with Internal Audit annual figures from Office Depot for the total purchases made by all City Departments, which differed from what was recorded in the PeopleSoft System. Therefore, the Purchasing Manager is not sure and Internal Audit was unable to determine whether all Office Depot purchasing methods resulted in the City Departments receiving the appropriate discounts in accordance with the Office Depot contract.

Recommendation 1 – The Purchasing Manager or designated employee should draft and distribute formalized (written) instructions to all City Departments for the ordering of Office Depot products to ensure consistency and cost savings citywide.

Management Response to Recommendation 1

Prior to August 16, 2000 a City wide memo was distributed by the previous Purchasing Manager informing City staff that Office Depot held the contract for office supplies. The memo stated the discounts offered by Office Depot and other pertinent information such as core item pricing and discounts offered from the Office Depot catalog (Exhibit A). The Office Depot representative, Ken Mueller, has been the designated liaison representative to respond to departments needs, assist with their orders and provide samples, etc. Mr. Mueller notifies the Purchasing Manager of any issues or concerns regarding the office supply contract.

Since some time has elapsed since the August, 2000 City wide notification regarding the Office Depot contract, the Purchasing Manager will issue an updated City wide announcement to all City employees as soon as the Office Depot discount issues are resolved and the U.S. Communities audit is finalized.

Finding 2 – Lack of Formalized Training of Departmental Personnel for Ordering Office Depot Products

The Purchasing Manager indicated informal or formal training meetings have not been held with the designated Departmental personnel ordering Office Depot supplies. Approximately four years ago, Purchasing stopped ordering, receiving, and paying for all City Departments' Office Supply orders and then distributing the products and ID billing each customer. Each Department/Division was given the authority and responsibility to order, receive and pay for their supplies from Office Depot.

Purchasing staff indicated they still receive some Departments' Office Depot bills versus the bill(s) going directly to the Department(s). Occasionally, Purchasing receives a supply order for another Department/Division and must determine whose order it is and call the respective Department/Division to pick up the order.

In addition, Internal Audit learned that Departments/Divisions may not know how to obtain a free Office Depot Catalog online. Therefore, Departments/Divisions may be using outdated catalog(s) especially if not ordering online.

Recommendation 2 - The Purchasing Manager or designated employee should conduct formal training sessions to ensure all designated Departmental personnel who order and pay for products from Office Depot have the knowledge to perform their purchasing functions to ensure appropriate prices/discounts are being realized citywide.

Management Response to Recommendation 2

Following issuance of the City wide memo to remind/advise staff of the Office Depot contract, a training class for City employees regarding the procedures for ordering office supplies and available discounts being offered will be scheduled by the Purchasing Manager in conjunction with the Office Depot representative.

Finding 3 – Inconsistency in Office Depot Catalog Prices, Online List Prices, and Discount Prices

Internal Audit selected a sample of 25 out of the 500 online Core Products to determine whether the List Price and Discount Price was the same between the Catalogs and Online. Internal Audit found:

- Seven (7) out of the 25 Core online products were not listed in the Big Solutions Catalog (List Prices only).
- Thirteen (13) out of the 25 Core online products were not listed in the U.S. Communities Catalog (Discount Prices only).
- Eight (8) out of the 25 products' List Price was higher online than in the Big Solutions Catalog.
- One (1) out of the 25 products' Discount Price is lower online than in the Big Solutions Catalog.

- Seven (7) out of the 25 products' Discount Price was higher than the discount price in the U.S. Communities Catalog.
- One (1) out of the 25 products' Discount Price was lower online than the discount price in the U.S. Communities Catalog.

The inconsistency in the printed Office Depot Catalog prices, online list prices, and the discount prices makes it difficult to follow the expenditure trail to determine which amount is appropriate to charge the customer.

The Purchasing staff indicated they believe there is a mid year price (or possibly more frequent) increase on some products and therefore the online List and Discount Prices are probably the most current prices.

Recommendation 3 – None at this time.

Management Response to Finding 3

See response to Recommendation 4

Finding 4 – Unclear and Confusing Discount Percentages

Internal Audit selected a limited sample of invoices to examine the prices paid and the discounts received. The sample of invoices contained 408 products:

- 147 by Purchasing during July 26, 2007 to February 2, 2008
- 164 by Parks during December 6 through December 27, 2007
- 97 by Police during November 1, 2007 to January 3, 2008.

Internal Audit located thirty-seven (37) of the products on the online Core Items List; seventy-eight (78) of the products in the U.S. Communities Catalog; and 350 products in the Office Depot Big Solutions Catalog.

Internal Audit noted seven (7) products where the invoice was priced higher than the discount price in the U.S. Communities Catalog by a total of \$3.81. These seven products were purchased in 2008 that might come under a New Year pricing increase by Office Depot.

Discount arrangements, called for in the piggyback contract, are complicated. In order to attempt to calculate the discount received, Internal Audit compared the invoice price to the Big Solutions Catalog price to determine if the discount received was per the piggyback contract. Internal Audit noted that the discount percentage ranged from 6.7% to 93.5%.

Internal Audit was unable to conclude whether the appropriate discount price was received per the piggybacked County of Los Angeles, California Office Depot Contract.

Recommendation 4 – The Purchasing Manager should meet with the Office Depot representative to determine if the price paid was the discount price in accordance with the piggybacked County of Los Angeles and Office Depot Contract. Additionally, all available discount options should be discussed as well as Office Depot reporting solutions to assist the Purchasing Division in monitoring the discounts.

After concluding the audit fieldwork, the Purchasing Manager indicated she would meet with the Office Depot representative for clarification on the vast range of the discount percentages noted by Internal Audit.

Management Response to Recommendation 4

Prior to the Purchasing Manager requesting that an Office Depot pricing audit be performed by City Internal Audit, the U.S. Communities representative was contacted by the Purchasing Manager to inquire if they had experienced any pricing problems with their Office Depot contract. The Purchasing Manager was informed that U.S. Communities are conducting an internal audit, as well as an outside audit, of the Office Depot contract and results would be available in June, 2008. Also, the Purchasing Manager informed the Office Depot representative Mr. Mueller that she had requested the City's Internal Audit group to conduct an audit to verify that pricing being provided to the City from the U.S. Communities piggyback contract was accurate. A meeting with Mr. Mueller and the regional Office Depot representative is scheduled June 9 to review their pricing discounts relative to the contract and to assure methodology is in place so the City receives the contract discounts to which it is entitled.

Recommendation 5 – The Purchasing Manager and staff should initiate a Request for Proposal process to identify the most cost effective and efficient office supply vendor for the City of Fresno.

Management Response to Recommendation 5

Historically the Purchasing Division has bid out office supplies and the last bid process was conducted in 2000. Due to serious issues with bidders being non-responsive and non-responsible the previous Purchasing Manager recommended that Council reject all bids and piggyback the National Association of County Organizations (NACO) contract with Office Depot for office supplies (see Exhibit B) which offered discounts based on much larger purchasing power than the City of Fresno alone.

Since that time the Purchasing Manager has chosen to continue to piggyback the NACO contract for office supplies. The City's past history has shown that the undertaking of bidding out office supplies, which consumes approximately a six month process, does not provide the savings that can be achieved by piggybacking a contract which has the office supply volume of several large Cities and Counties.

Internal Audit Comments

Internal Audit recognizes the time and effort to conduct a Request For Proposal, (RFP) Bid Process and Preparation and Presentation of these processes to the City Council for approval of a Vendor Contract. However, since an RFP/Bid Process has not been conducted by Purchasing for an Office Vendor Contract for the City of Fresno since 2000 (eight years), Internal Audit still recommends:

- a) A new RFP/Bid process be initiated by Department Management; or if no RFP initiated by Management, then,
- b) The Purchasing Manager should appoint one Purchasing Division Employee to monitor the prices charged/paid by the various City Departments on a monthly basis to ensure the City is not being overcharged under the current piggyback arrangement to the County of Los Angeles, California's contract with Office Depot.

TO: All City Clients
FROM: Purchasing Division
SUBJECT: New Stationery Requirements Contract with Office Depot

Effective August 16, 2000, Office Depot will be the supplier for the City Wide Contract for Office Supplies which was formerly split between Office Depot and Boise Cascade.
Orders placed by fax or telephone before 3 p.m., will be delivered the following working day.

Office Depot will start distributing their folders to City Divisions on Monday, August 14. The folder includes instructions, an order form of the most frequently purchased 105 items with the best pricing for the City, a mini catalogue of Frequently Ordered Products (61 % discount) and Office Depot's full line catalogue (35 % discount).

Pricing for the 105 items is listed on the order form. The Frequently Ordered Products catalogue shows net pricing of up to 61 % off; the full line catalogue shows list prices to which a 35 % discount applies.

Twelve (12) of the 105 items which the City uses frequently are not included in any of the catalogues that you will receive. "u:\form\office depot special" in the system. Please use this form to ensure next day delivery.

There are few changes to the way we have done business with Boise Cascade, except Office Depot will offer internet access for ordering. If you wish to place your order by internet, please contact Vi Castro with Office Depot at 452-2947.

As in the past, the contract for office supplies excludes the following items:

City fixed asset items, furniture, radios, printed forms, food (except coffee), janitorial supplies, paper, and continuous computer paper in quantities.

Billing, as before, will be done centrally through ID billing and you will receive a copy of the ID billing and detailed invoices.

If you do not receive your folder by August 16 and you need to place an order or have questions, please call Jean Thomas-Runnels in Purchasing at extension 1132.



REPORT TO THE CITY COUNCIL

AGENDA ITEM NO.

COUNCIL MEETING June 27, 2000

APPROVED BY

DEPARTMENT DIRECTOR *Andrew Boyer*

CITY MANAGER

June 22, 2000

FROM: KARIN E. TAGGART
Purchasing Manager

SUBJECT: REJECT ALL BIDS FOR A REQUIREMENTS CONTRACT FOR OFFICE SUPPLIES
(Bid File No. 8286) AND PIGGYBACK AN EXISTING CONTRACT

BACKGROUND

City departments/divisions have an ongoing need for office supplies. The execution of a requirements contract with a supplier establishes a firm price, secured through competitive bidding, for a specified time.

Prior to publishing the bid proposals, Purchasing Staff met with potential bidders several times. A Notice Inviting Bids was published on February 20, 2000 and distributed to 15 prospective bidders. Three bid proposals were received and opened on March 23, 2000.

Bid proposals consisted of a Core Section "A" of about 150 of the most frequently used office supply items. In addition, staff developed a separate listing of approximately 50 "market basket" items (Section "B") to test bidders' pricing levels in their catalogue. The formula for determining the lowest bidder was the total of Section "A" plus four times the total of the market basket Section "B." After application of the formula, bids ranged from \$207,817.97 to \$239,409.81, after taking payment discounts. Bidders were Office Depot of Fresno, Corporate Express of Fresno and Boise Cascade of Menlo Park.

Two of the bidders have tentatively been determined to be non-responsive to the specifications as they offered discount structures with a floor which was not allowed in the specification. The other bidder has tentatively been determined to be non-responsible to the specifications due to significant concerns about the integrity of their pricing.

All three bidders were notified of the determination that they were either non-responsive and/or non-responsible and were given the opportunity to appeal pursuant to Council Resolution 98-59. No appeals were received.

Staff therefore, recommends rejection of all bids.

REPORT TO THE CITY COUNCIL

SUBJECT: REJECT ALL BIDS FOR A REQUIREMENTS CONTRACT FOR OFFICE SUPPLIES

Page 2

In order to bring an alternative to the Council, staff requested both Office Depot and Corporate Express to submit their company's most favorable piggyback. No other piggybacks were solicited. Previous bids throughout the last few years have been mailed to 10-15 potential bidders, yet only these two companies and Boise Cascade have bid to the City. Staff costed out the City bid based on the submitted piggybacks, as follows:

Office Depot, Fresno National Association of County Organizations (NACO) contract	\$252,989.17
Corporate Express, Fresno Stanislaus County contract	\$290,925.16

Staff has determined that the lowest piggyback is offered by Office Depot through the NACO contract. The contract for this piggyback expires on April 1, 2001. Staff recommends that a requirements contract be awarded to Office Depot based on NACO pricing through April 1, 2001, with two possible one-year extensions, if the NACO contract is extended.

ISSUE

Should all bids for a requirements contract for office supplies be rejected as all bidders are non-responsive or non-responsible, and the alternative of a "piggyback" be considered?

CONCLUSIONS AND RECOMMENDATIONS

It is recommended that the City Council:

1. Declare all three bidders non-responsive and/or non-responsible to the specifications.
2. Reject all bids received.
3. Direct the Purchasing Manager to piggyback the National Association of County Organizations (NACO) contract with Office Depot for a requirements contract for office supplies through April 1, 2001, with two possible one-year extensions, if the NACO contract is extended.

Back up pages:
Evaluation of Bid Proposals
"Piggyback" comparison

EVALUATION OF BID PROPOSALS

FOR: REQUIREMENTS CONTRACT FOR OFFICE SUPPLIES

Bid File No. 8286
Bid Opening: March 23, 2000

BIDDER'S	SECTION "A" CORE ITEMS	SECTION "B" NON-CORE ITEMS	TERM DISCOUNT	TOTAL AFTER DISCOUNT
1. Office Depot 5405 E. Home Ave. Fresno CA 93727 **Nonresponsive**	\$136,840.57	\$70,977.40	None	\$207,817.97
2. Corporate Express 452 W. Bedford Fresno CA 93711 ***Nonresponsive**	\$156,002.92	\$76,941.00	3%-20 Days	\$225,955.60
3. Boise Cascade 1315 O'Brien Dr. Menlo Park CA 94025 **Nonresponsible	\$168,877.84	\$77,936.40	3%-20 Days	\$239,409.81

Each bidder has agreed to allow the City sixty-two (62) days from date bids are opened to accept or reject their bid proposal. Purchasing requests that you complete the following sections and return this bid evaluation to the Purchasing Division at the latest by Friday, April 28, 2000 5:00 P.M.

BACKGROUND OF PROJECT (To be completed by Evaluating Department/ Division. Explain need for project/equipment):

City departments/divisions have an ongoing need for office supplies. The execution of a requirements contract with suppliers establishes a firm price, secured through competitive bidding for a specified time.

DEPARTMENT CONCLUSIONS AND RECOMMENDATION:

Award a contract in the amount of _____ to _____ as the lowest responsible bidder.

Remarks:

Reject all bids. Reason: No bidder responsive and responsible

EXHIBIT "A"

Piggyback Comparison

Office Depot
5405 E. Home
Fresno, CA. 93727

Section "A" Core Items	\$ <u>177,543.37</u>
"B" Market Basket (4x)	\$ <u>75,445.80</u>
Total	\$ <u>252,989.17</u>

Corporate Express
452 W. Bedford
Fresno, CA, 93711

Section "A" Core Items	\$ <u>207,526.56</u>
"B" Market Basket (4x)	\$ <u>83,398.60</u>
Total	\$ <u>290,925.16</u>