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Contract Compliance Review of  
Office Depot, Inc.

**Report of Audit 08/09-XX-08**

**December 18, 2009**



Office of Management and Budget

Internal Audit

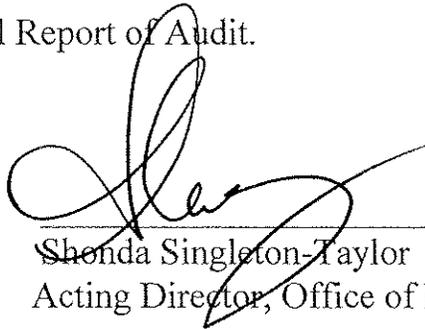
**MEMORANDUM NO. 09-58**

**DATE:** December 18, 2009

**TO:** Kirk Buffington, Director of Procurement Services

**SUBJECT:** *Contract Compliance Review of Office Depot, Inc.*

Enclosed is the "subject" Final Report of Audit.

A handwritten signature in black ink, appearing to read 'Shonda Singleton-Taylor', is written over a horizontal line. The signature is stylized and cursive.

Shonda Singleton-Taylor  
Acting Director, Office of Management and Budget

Attachment - Final Report of Audit No. 08/09-XX-08

c: City Commission  
City Manager/George Gretsas  
Allyson C. Love, Assistant City Manager  
Ted Lawson, Assistant City Manager  
David Hebert, Assistant City Manager

SST/am

## REPORT OF AUDIT NO. 08/09-XX-08

**DATE:** June 2, 2009

**TO:** Kirk Buffington, Director of Procurement Services

**FROM:** Renée C. Foley, Assistant Internal Audit Director

**BY:** Financial Management Analysts/Dede T. Alexakis and Diane Lichenstein

**SUBJECT:** *Contract Compliance Review of Office Depot, Inc.*

### **BACKGROUND**

On September 19, 2006, the City Commission approved a one year U.S. Communities Contract (Contract) with subsequent renewals for 2007 and 2008, which piggybacked the County of Los Angeles Master Agreement No. 42595 with Office Depot (Vendor) effective January 2006 through January 2010. The Master Agreement consisted of a discount from manufacturer's pricing plan using current published price lists or cost plus percentage ("list less") referencing **Exhibits A** and A-1.<sup>1</sup> **Exhibit A-3**, not referenced in the Master Agreement, consisted of a "web less" pricing plan ("web less") that included a 10% discount from the web price. Since March 30, 2009, many U.S. Communities program participants, including the City, transitioned to a single new hybrid/fixed price plan with Vendor. The City's Procurement Services Department is responsible for the administration and monitoring of the Contract.

Former Vendor employee claimed that many government agencies were overcharged due to being switched to an unauthorized pricing plan. Various agencies under the Contract have claimed that Vendor switched them without authorization to the "web less" pricing plan, offering a 10% discount on web prices, from the "list less" pricing plan with potentially higher discounts of 45% from catalog list prices. The City's Director of Procurement Services requested Internal Audit conduct a review of the City's Vendor purchases due to the aforementioned.

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<sup>1</sup> Exhibits A-1 and A-2 were not applicable.

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The City's purchases from the Vendor during the Contract period October 2006 to April 20, 2009, were as follows.

Date	Amount
October 2006-September 2007	\$ 648,617
October 2007-September 2008	718,315
October 2008-April 20, 2009	354,529
<b>Total</b>	<b>\$1,721,461</b>

### SCOPE

Internal Audit conducted interviews and reviewed documents by Vendor to determine the pricing plan the City was on and effective date that the City was switched from the initial "list less" to "web less" pricing plan. The initial scope was October 2007 to June 2008; however, as further information was gathered, the scope was expanded to October 2006 through April 2009, which was when the City entered into the U.S. Communities Contract. We reviewed the sections replaced/deleted to the Master Agreement that were outlined in Amendment #6. Verification was made to determine whether the City was correctly charged/invoiced under the authorized pricing plan with a comparative analysis of what was charged/paid versus what should have been had the Vendor not switched the pricing plan. We performed tests of transactions and determined the adequacy of internal controls for verifying/monitoring the accuracy of prices invoiced/charged. Judgmental sampling techniques were used. We also tested the City's registration of purchasing cards (P-cards) with Vendor to obtain the appropriate pricing and/or discounts. This audit was conducted in accordance with generally accepted governing auditing standards.

### OVERALL EVALUATION

When the City Commission approved the original Contract with the Vendor, the City agreed to the specified "list less" pricing plan. The Vendor switched the City's pricing plan from "list less" to "web less" without written consent, resulting in a more costly plan to the City. The Vendor did not provide Procurement Services with all documentation regarding the new hybrid/fixed plan that according to Vendor, included the "net pricer"<sup>2</sup> report used to verify the accuracy of prices.

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<sup>2</sup> Net pricer report is the Vendor's price list for all new/hybrid pricing plan items.

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The City paid \$51,311 in excess thus far by Vendor switching the City to the “web less” pricing plan for the period October 10, 2007 to April 2009. This amount did not include purchases made by the City for core<sup>3</sup> products and other items such as paper, etc., nor did it include requested, but not provided purchases from October 2006 to October 2007, which could potentially result in further monies due to the City.

Procurement Services can improve its overall management and monitoring over the Vendor’s compliance with terms and conditions in the Contract, such as performing periodic verifications of prices charged and training end users to do the same. Internal controls were not adequate to determine whether invoices and web purchases/charges were accurate. Procurement Services did not have the City Attorney’s Office (CAO) review the piggybacking of the Master Agreement from an out-of-state jurisdiction, nor was a customized contract entered into between the City and Vendor. Procedures were not in place to confirm the City and Vendor’s lists/databases of P-card users were accurate/updated.

### **FINDING 1**

***Vendor switched the Master Agreement agreed upon “list less” pricing plan to the “web less” pricing plan without the City’s knowledge and written consent. Furthermore, the Vendor did not inform/furnish the City as required of Amendment #6 to the Master Agreement which deleted/replaced sections that provided accountability.***

*Master Agreement No. 42595, Article 6.2 Prices, Discounts and Changes, Section 6.2.1 states: “Vendor agrees for the period of this Agreement that prices for products covered herein will be based on a Discount from Manufacturers’ current published price lists or Cost Plus Percentage, except for those identified in EXHIBITS A and A-1 as Core Products.... Section 6.2.2 states: “...It also shall be VENDOR’s responsibility to keep COUNTY and participating government entities informed of any other changes.... Upward revisions shall be subject to acceptance by COUNTY. Section 6.2.3 states: If an increase in price is determined not to be acceptable by COUNTY, VENDOR will be obligated to furnish the ordered products at the previous price(s). Article 6.5 Product Pricing and Maintenance, Section 6.5.2 states: COUNTY’s Purchasing Agent designee*

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<sup>3</sup> Core products consist of products such as staples, pens, and binders most frequently purchased where Vendor provided greater savings at the individual unit level.

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*will notify VENDOR in writing of formal approval within seven (7) days after VENDOR submittal of any change to the catalogs.”*

Our review to determine which pricing plan the City was on with Vendor for the period October 2006 through April 20, 2009, revealed the following conditions found (**Exhibits A and A-3**):<sup>1</sup>

- City's pricing plan was switched by the Vendor in October 2007, according to Vendor's Regional Sales Director (RSD). Neither the City nor Vendor evidenced written consent to switch to the “web less” pricing plan since the date that the City entered into the Contract; thus, originally agreed upon “list less” pricing plan should have been utilized throughout.
- Prior to the switch by the Vendor to the “web less” pricing plan, Vendor did not explain both pricing plans to Procurement Services management, nor was a cost comparison provided.
- Master Agreement, U.S. Communities Request for Proposal, and support documentation evidenced by the City did not contain Exhibits, including Exhibit A-3 that defined the “web less” pricing plan.
- City was unaware and not informed by the Vendor of Amendment #6 according to Procurement and Contracts Manager, which deleted/replaced sections that previously permitted the lead agency of the Master Agreement to change unacceptable price increases, amend discount structures, provide catalog approvals, etc.

According to Vendor's Account Manager, the plan depended on the item(s) purchased. It was further stated that the switch to the “web less” plan for the City by Vendor was agreed upon verbally with no price comparison provided.

Receipt of a full explanation of pricing plan(s) and any changes by Vendor in writing and the City's solicitation of competitive bidders will assist in making an informed decision of the best pricing and quality contract/plan available.

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### RECOMMENDATIONS AND MANAGEMENT COMMENTS

The *Director of Procurement Services* should require the *Contracts Manager* to:

**Recommendation 1.** *In the future, require the Vendor to provide a full explanation of pricing plan(s) solicited, available in writing and via presentation. Thus, from the onset and throughout the Contract the City is aware and understands the pricing plan structure(s) in order to perform periodic price verifications and train users to verify the accuracy of pricing items ordered. Furthermore, inform the Vendor that no change in pricing plan should occur unless written consent is given by the City.*

**Management Comment.** *Management concurred with the finding and recommendation and stated:* “Procurement Services Director (PSD) sent a letter to Office Depot on July 2, 2009, to advise them that all changes in pricing plan(s) are to be in writing, verified, and explained; and approved in writing by PSD, before being put into effect, beginning July 2, 2009, to be updated annually for net-pricer (received this year) and other changes as required. **SEE ATTACHED LETTER DATED JULY 2, 2009.** (Continuous).” **This item is closed.**

**Recommendation 2.** *Prior to Contract expiration date, solicit competitive bids for office supplies contract in order to receive the best possible pricing for required goods and services, consistent with acceptable quality.*

**Management Comment.** *Management concurred with the finding and recommendation and stated:* “Prior to contract expiration date, of January 1, 2010, of the Office Depot contract, competitive bids will be solicited.” **This item is open.**

### FINDING 2

*The City paid more under the “web less” pricing plan than it would have had it not been switched by Vendor from the “list less” pricing plan. Also, Vendor did not provide and the City did not request/obtain required reports to verify the accuracy of prices charged/paid. Furthermore, in as*

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***much as the Vendor would not provide the cost portion of the “list less” pricing, stating that it was proprietary; thus, verifications of prices for accuracy could not be performed by the City.***

*Master Agreement No. 42595, Article 6.2 Prices, Discounts and Changes, Section 6.2.1 states: “Vendor agrees for the period of this Agreement that prices for products covered herein will be based on a Discount from Manufacturers’ current published price lists or Cost Plus Percentage, except for those identified in EXHIBITS A and A-1 as Core Products.... Section 6.2.2 states: VENDOR will be responsible for furnishing and delivering approved price lists to all County departments and other participating government entities. It also shall be VENDOR’s responsibility to keep COUNTY and participating government entities informed of any other changes.... Section 6.2.3 states: If an increase in price is determined not to be acceptable by COUNTY, VENDOR will be obligated to furnish the ordered products at the previous price(s).... Article 6.5 Product Pricing and Maintenance, Section 6.5.1 states: VENDOR will be solely responsible for the maintenance of the Agreement and will document all additions, Any changes, substitutions, additions, deletions and/or pricing revisions must be reviewed and approved by the COUNTY and VENDOR in writing prior to any inclusion to the Agreement.”*

During our review to determine whether the City was invoiced/billed by Vendor in accordance with the terms and conditions of the City Commission approved Contract during the period October 2006 to April 20, 2009, the following conditions were found.

- \$51,311 of \$956,656 (5.36%) items purchased/paid by the City from October 10, 2007 to April 20, 2009, were charged in excess by Vendor switching the City to the “web less” pricing plan.<sup>4</sup> However, report for items purchased from October 2006 to October 9, 2007, has not been provided to date by Vendor as requested.
- 6 of 15 (40%) invoices originally sampled were not evidenced in the Vendor’s report provided. Furthermore, all core<sup>4</sup> purchases and various paper items were not evidenced.
- Vendor initially provided the cost of items purchased for the original scope (October 2007 to June 2008). Subsequently, RSD, stated cost was proprietary and could not be provided.

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<sup>4</sup> Vendor’s report was used since Internal Audit is still awaiting additional documentation to complete comparative analysis.

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- Vendor did not provide and City did not obtain manufacturers' current established price lists and notices of any price changes as required to determine net prices from "list less" and/or cost plus percentages.
- A complete comparative analysis to determine the accuracy of prices for *all* items billed/paid could not be performed since *all* required reports and price lists (i.e., core lists,<sup>4</sup> etc.) were not provided by Vendor nor obtained by City for the duration of the Contract prior to the new hybrid pricing plan.
- Core lists<sup>4</sup> requested/provided during this audit for January 2006 to December 2008 evidenced changes in prices/items (10 occurrences) without authorizations furnished as required.
- Core lists<sup>4</sup> including prices, provided by Vendor's Business Solutions Division Director - Public Sector/U.S. Communities were different than those provided by Vendor's Account Manager for another Program Participant under the same Contract. Thus, we were unable to confirm which list was correct.
- IA was unable to obtain "web less" prices prior to discount for FY07/08 purchases; thus, Vendor provided prices manually. However, we were unable to ascertain whether prices were true/correct.

According to Vendor's Account Manager, the screen prior to the order confirmation screen for the "web less" price detail could have been printed out; yet, the end user was not prompted to do so.

- City policies and procedures, invoices and on-line confirmation of payment printouts did not evidence pricing plan charged to the City; thus, verification of prices charged could not be determined using the aforementioned for past/current plans.
- 5 of 5 (100%) City end users interviewed were not aware of the pricing plan the City was on, including price structure and any applicable discount.

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Vendor has evidenced via comparison of pricing plans provided that the City indeed paid more as a result of Vendor switching the City to the “web less” pricing plan. Vendor’s RSD stated the web prices were not static and historic manual prices provided were based on the honor system.

*Note:* During this review, Vendor no longer offered the “list less” or “web less” pricing plans and developed a new hybrid/fixed pricing plan to U.S. Communities program participants described as the best/only option. However, Procurement Services was not provided with the net pricer report in order to verify prices that Vendor’s Account Manager indicated was only provided upon request.

Receipt of reports and price lists furnished by Vendor for new hybrid/fixed (current) pricing plan in compliance with the Contract will enable Procurement Services/independent reviewer(s) and end users to verify the accuracy of pricing to maximize the City’s cost savings, prevent over/under payments, and provide transparency of prices charged.

### **RECOMMENDATIONS AND MANAGEMENT COMMENTS**

The *Director of Procurement Services* should:

**Recommendation 3.** *Issue a certified letter requesting a credit of \$51,311 in the form of a lump sum check as a result of Vendor switching the City to a more costly pricing plan without written consent. Furthermore, request in letter all outstanding documentation be provided to Internal Audit in order to determine any further exceptions.*

**Management Comment.** *Management concurred with the finding and recommendation and stated:* “PSD issued a letter dated July 2, 2009, which was hand delivered and signed off, that it was received by the South Florida Regional Sales Director from Office Depot, requesting a credit of \$51,311, in a lump sum check and request that Office Depot provide all outstanding documentation including a complete comparative analysis for the period October 2006 – September 2007, which is due by August 30, 2009.” **This item is closed.**

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The *Director of Procurement Services* should require the *Contracts Manager* to:

**Recommendation 4.** *Request Vendor's Account Manager to provide the City with an electronic net pricer report for the new hybrid/fixed (current) pricing plan in order to perform a verification to confirm the accuracy of prices charged, including any revisions. If net pricer report does not include all prices (catalog, website, store, etc.), request Vendor's Account Manager to provide supplementary report to include all items omitted. In future, confirm receipt of all supporting items to all contracts/agreements and subsequent documentation (i.e., exhibits, lists, etc.) are furnished at specified intervals throughout the contract period.*

**Management Comment.** *Management concurred with the finding and recommendation and stated: "PSD has requested semi-annually, the net pricer report; supplemental reports and any subsequent documentation as stated in letter sent to Office Depot dated July 2, 2009. (Continuous)." This item is closed.*

**Recommendation 5.** *Post the electronic "net pricer" report in the shared drive in a format that cannot be edited and communicate same to City employees purchasing Vendor items to verify the pricing of items purchased and report discrepancies to Procurement Services to communicate to Vendor for correction to resolution.*

**Management Comment.** *Management concurred with the finding and recommendation and stated: "PSD has posted the "net pricer" report in our shared drive, and will provide to City employees, training sessions scheduled in the month of August 2009, on how to verify pricing of items purchased. (Continuous)." This item is closed.*

**Recommendation 6.** *Request Vendor to furnish U.S. Communities all price, cost (if applicable) and core list price changes, and furnish/post on the U.S. Communities website. Furthermore, Procurement Services should maintain all records of price changes and authorizations on file.*

**Management Comment.** *Management concurred with the finding and recommendation and stated: "PSD has requested Office Depot, in letter dated July 2, 2009, to provide all price, cost and core list price changes and*

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PSD will maintain all records of such price changes and authorizations on file. (Continuous).” **This item is closed.**

**Recommendation 7.** *Request Vendor to include on every invoice/web payment confirmation and Vendor confirmation e-mail of web purchase the “list” and “your” price. Furthermore, request a catalog with the same specifications for all listed items, as quoted in June-December 2007 catalog be published and provided.*

**Management Comment.** *Management concurred with the finding and recommendation and stated: “In letter dated July 2, 2009, PSD has requested Office Depot include list pricing and our pricing and provide a catalog (if requested by departments, with the same specifications for all listed items).” This item is closed.*

### **FINDING 3**

***Procurement Services did not have the CAO review the piggybacking of the Master Agreement, nor was a customized contract entered into between the City and Vendor. Furthermore, when City Commission approved the purchase of office supplies the Master Agreement and U.S. Communities request for proposal were referenced; however, not included for review.***

*City Charter Section 4.12. Duties states: “The city attorney shall be the legal advisor to, and attorney and counselor for, the municipality and all of its officers in matters relating to their official duties, and is further charged with the responsibility of prosecuting offenders against the ordinances of City of Fort Lauderdale, and to that end he or his delegated assistants shall:... (c) Prepare, and/or review, all contracts and other instruments in writing in which the municipality is concerned, and endorse on each his approval of the form and correctness thereof... and no formal contract with the municipality shall take effect until such approval is so endorsed thereon.”*

*Master Agreement No. 42595, Article 12.0 GOVERNING LAW, JURISDICTION AND VENUE states: “This Master Agreement shall be governed by, and construed in accordance with, the laws of the State of California. Vendor agrees and consents to the exclusive jurisdiction of the courts of the State of California for all purposes regarding this Master Agreement....”*

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*City Code of Ordinances DIVISION 2. PURCHASING, Section 2-181. Waiver of formal bid requirements states: "When the estimated cost of supplies and contractual services is twenty-five thousand dollars (\$25,000.00) or over, a contract for same may be awarded by the city commission to the lowest and best responsible bidder without formal contract, and, when requested, the commission may waive formal bidding procedures, under the following conditions:...(5) The commission shall waive formal bid procedures and award the contract to the lowest and best responsible bidder...(7) The city manager may procure, without competitive bids, supplies and services which are the subject of contracts with the state as set forth in Florida Statutes or are the subject of contracts with the U.S. Federal General Services Administration. (8) The city may buy from another governmental entity contracts or bids whereby such contract or formal bid followed formal bid procedures of sealed written bids, public opening, and legal advertising."*

During our review of the City's Contract with U.S. Communities to piggyback the Master Agreement,<sup>5</sup> the following conditions were found:

- Agreement of approximately \$600,000 expenditures/year was not submitted to the CAO for review/approval of terms and conditions. Thus, a customized contract was not developed as CAO had for other piggybacked agreements since the Master Agreement was with LA County, under the jurisdiction of the State of California laws, opposed to those governing the State of Florida. Furthermore, a customized contract was not evidenced.
- Commission Agenda Report did not include the Master Agreement, U.S. Communities request for proposal to piggyback the Master Agreement, attachments and supporting items; thus, City Commission verification of contract specifications could not be determined.
- Section 2-181, City Code of Ordinances needs to be updated to clarify the non-requirement of a formal contract for cost of supplies and contractual services of \$25,000 or over.

According to the Contracts Manager, non-service contracts, including the \$600,000/year Office Depot contract, were not sent to the CAO for review/approval.

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<sup>5</sup> City piggybacked the LA County Master Agreement for one year with annual renewals from October 2006-September 2009.

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Review/approval by the CAO of contracts and the use of City customized contracts/agreements when piggybacking, would limit the City's liability exposure and confirm the City's assets are protected.

### **RECOMMENDATIONS AND MANAGEMENT COMMENTS**

The *Director of Procurement Services* should require the *Contracts Manager* to:

**Recommendation 8.** *Submit all new and renewal piggybacking contracts/agreements to the CAO for review/approval to determine whether to draft customized City contracts; otherwise, solicit competitive bids for contracts/agreements. Once finalized, include all contracts/agreements for City Commission approval.*

**Management Comment.** *Management concurred with the finding and recommendation and stated:* "The Director of Procurement Services will submit to CAO for review/approval beginning on July 20, 2009, all piggybacking contracts/agreements to determine whether to draft an amendment to the piggybacking contract. All awarded contracts over \$25,000 will have a formal contract reviewed/approved by CAO and awarded by the City Commission. (Continuous)." **This item is closed.**

The *Director of Procurement Services* should:

**Recommendation 9.** *Consult with the CAO to make a determination regarding whether to amend/correct the City Code of Ordinances Section 2-181, including but not limited to, redefining the threshold requirement of a formal contract for the cost of supplies and contractual services and propose such results to the City Manager.*

**Management Comment.** *Management concurred with the finding and recommendation and stated:* PSD will consult with CAO to make a determination regarding whether to amend/correct the City Code of Ordinances Section 2-181, including but not limited to, redefining the threshold requirement of a formal contract for the cost of supplies and contractual services and propose such results to the City Manager. **Estimated completion date January 29, 2010.**

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### FINDING 4

***Vendor's database of City P-card users registered<sup>6</sup> with the City's account was outdated and included P-cards without corresponding names. Furthermore, the City's database of P-card users was also not current.***

*Policy and Standards Manual 9.13.1.2, A.3. states: "Termination or Transfer of Cardholder. a. When an employee ends his or her employment or is transferred to another Department/division/group activity; If leaving, the employee's supervisor shall collect the Purchasing card...submit the destroyed cards to the Purchasing Card Program Manager. If transferring, the employee's supervisor shall contact the Finance Department to have the index code changed. b. If the supervisor is unable to collect the purchasing card when an employee is terminated, retires or otherwise leaves the employment of the City, he/she shall immediately (within the same day) notify the Purchasing Card Program Manager by telephone or e-mail for cards to be cancelled expeditiously. The Purchasing Card Program Manager will ensure that the card is cancelled."*

Our review of the City's P-card holders registered under the City's account with the Vendor revealed the following conditions found:

- Vendor P-card records contained employees who were no longer with the City and/or worked in a position not requiring the use of a P-card.
- Vendor and City did not have internal controls to verify registered P-cards under the City's account number with Vendor were current.
- 517 of 1,178 (44%) Vendor registered P-cards did not evidence names of users; thus, we were unable to verify whether these users were City employees.
- 52 of 661 (8%) Vendor registered P-cards contained duplicate and triplicate listings.
- City's P-card records contained duplicate listings<sup>7</sup> and an employee that transferred to a different position, no longer requiring the use of a P-card, was not removed from the list.

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<sup>6</sup> Registered P-cards with Vendor qualify for discounts, sales tax exemption, and any other City account privileges.

<sup>7</sup> Duplicate cards noted do not include "Department Ghost Travel Cards" (P-cards) used for employee travel purchases.

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- Names were not easily identified to those on the City's Payroll employee list.

According to Vendor's Account Manager, City P-card updates were the City's responsibility. However, according to Procurement Specialist II, P-card users were instructed to update their information to Vendor's Account Manager directly. It was also stated that registered P-cards with dates opposed to names were groups of P-card users registered; however, the City did not evidence any P-card group registration.

Updating names to cross-reference City P-card holders and confirmation of only one P-card per employee for both City and Vendor lists of P-card users confirms asset accountability and efficiency for Procurement Specialists to track/monitor purchases made.

### **RECOMMENDATIONS AND MANAGEMENT COMMENTS**

The *Director of Procurement Services* should require the *Procurement Specialist II* to:

**Recommendation 10.** *Send all P-card holders' supervisors a written/e-mail request to confirm and provide P-card information including, but not limited to the following, and update Procurement Services' list with responses.*

- 1. Confirmation of whether P-card(s) issued should still be active (i.e., the elimination of former City employees).*
- 2. Spelling of name on P-card agrees with name on City Payroll employee list and/or name cross-referenced on City P-card list.*
- 3. Confirmation of which City vendor account(s) the P-card should be registered under (i.e., Vendor, Federal Express, etc.).*

**Management Comment.** *Management concurred with the finding and recommendation and stated:* PSD will send an e-mail request to all supervisors and/or P-Card Administrators to confirm active employees, name spelling and vendor accounts as stated above (Continuous). **This item is closed.**

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**Recommendation 11.** *Send Vendor's Account Manager an updated list from recommendation 10 to replace Vendor's City P-card account list and update periodically (i.e., semi-annually). Furthermore, perform same practice with all other applicable vendors.*

**Management Comment.** *Management concurred with the finding and recommendation and stated:* PSD will work with Office Depot and any other applicable vendors, to update our active P-Card user list on a Semi-Annual basis, (Continuous). **Estimated completion date January 29, 2010.**

**Recommendation 12.** *Confirm cancellation of multiple cards issued to P-card holders, and/or those transferred to another department/division/group activity and update list accordingly, including the removal of inactive cards. In the future, confirm one P-card per cardholder.*

**Management Comment.** *Management concurred with the finding and recommendation and stated:* PSD has reviewed all P-card holders and has updated the list accordingly, including inactive cards. We have confirmed one P-Card per user. Inactive cardholders remain on our list forever; however are identified as deactivated. **This item is closed.**

### **EVALUATION OF MANAGEMENT COMMENTS**

Management comments provided and actions taken and/or planned are considered responsive to the recommendations.

EXHIBIT A

OFFICE SUPPLIES  
PRICING AND DISCOUNTS

All in-stock items shown in the Office Depot General Line Catalogs and United Business Products Catalogs shall be priced at the following Discounts from the Manufacturer's list price, Cost Plus Percentage or at the prices as referenced in the attached spreadsheets (Core Products). **Note:** LL stands for Mfg. List Price Less, GP stands for Gross Profit and GM stands for Gross Margin.

TONER ITEMS:

Discount allowed from Supplier Catalog: LL 45% w/15% GP floor  
Discount allowed from Wholesale Catalog: LL 10%

FURNITURE:

Discount allowed from Supplier Catalog: LL 45% w/15% GP floor  
Discount allowed from Wholesale Catalog: LL 10%

GENERAL OFFICE SUPPLIES:

Discount allowed from Supplier Catalog: LL 45% w/15% GP floor  
Discount allowed from Wholesale Catalog: LL 10%

Discount allowed for General Office and Stationery  
Supplies-Most Frequently Ordered Items (MFOI)

LL 70% w/15% GP floor

TECHNOLOGY PRODUCTS:

Cost Plus Percentage allowed from Supplier Catalog: Cost Plus 13 GM  
Cost Plus Percentage allowed from Wholesale Catalog: Cost Plus 22 GM

Cost Plus Percentage allowed for MFOI General Office  
and Stationery Supplies Cost Plus 13 GM

PAPER PRODUCTS:

Cost Plus Percentage allowed from Supplier Catalog: Cost Plus 17 GM  
Cost Plus Percentage allowed from Wholesale Catalog: Cost Plus 25 GM

Cost Plus Percentage allowed for MFOI General Office  
and Stationery Supplies Cost Plus 17 GM

CATALOG PRODUCTS MARKED M AND S:

Discounts allowed for products in Catalogs marked M and S: LL 10%

CORE PRODUCTS:

**Fixed Price**

**Note:** Office Paper Products prices will float based upon market costs.  
All other Office Supply Products prices are firm for the first twelve (12) months of the Agreement.

**EXHIBIT A - 3**

**OFFICE SUPPLIES**  
**PRICING AND DISCOUNTS ALTERNATE OPTION**

Exhibit A-3 may be used as an alternate pricing option in place of Exhibit A. All items shown on the Office Depot Web site shall be priced at the following Discounts or at the prices as referenced in the attached spreadsheets (Core Products). **Note:** WL stands for Office Depot Web price Less, GP stands for Gross Profit and GM stands for Gross Margin.

**TONER ITEMS:**

Discount allowed from Web Site: WL 10%  
Discount allowed from Wholesale Catalog: WL 10%

**FURNITURE:**

Discount allowed from Web Site: WL 10%  
Discount allowed from Wholesale Catalog: WL 10%

**GENERAL OFFICE SUPPLIES:**

Discount allowed from Web Site: WL 10%  
Discount allowed from Wholesale Catalog: WL 10%

**TECHNOLOGY PRODUCTS:**

Cost Plus Percentage allowed from Web Site: WL 10%  
Cost Plus Percentage allowed from Wholesale Catalog: WL 10%

**PAPER PRODUCTS:**

Cost Plus Percentage allowed from Web Site: WL 10%  
Cost Plus Percentage allowed from Wholesale Catalog: WL 10%

**CORE PRODUCTS:**

**Fixed Price**

**Note:** Office Paper Products prices will float based upon market costs. All other Office Supply Products prices are firm for the first twelve (12) months of the Agreement.



City of Fort Lauderdale • Procurement Services Department  
100 N. Andrews Avenue, 619 • Fort Lauderdale, Florida 33301  
954-828-5933 FAX 954-828-5576  
[www.fortlauderdale.gov/purchasing](http://www.fortlauderdale.gov/purchasing)

July 2, 2009

Dirk Lohuis  
Regional Sales Director  
South Florida Region  
Office Depot  
2925 W. Corporate Lakes Blvd.  
Weston, FL 33331

RE: City of Fort Lauderdale's Audit of Office Depot Contract

Dear Mr. Lohuis,

An audit has been performed by the City of Fort Lauderdale pursuant to terms and conditions of Agreement of the U.S. Communities office supplies contract, issued by the County of Los Angeles and awarded to Office Depot, Agreement #42495.

The City's audit began in early July 2008, and has continued with requests for comparative analysis of the U.S. Communities Option 1 pricing plan (List Less), which was switched to the Option 2 pricing plan (Web Less), without written consent, resulting in a more costly plan to the City. Office Depot did not provide Procurement Services with all documentation regarding the new hybrid/fixed plan that according to Office Depot included the "net pricer" report, used to verify the accuracy of prices.

Office Depot has since provided to the City a comparative analysis of U.S. Communities Pricing/Option 1 and Option 2 for the period of October 2007 to April 2009, titled "Option 2 vs. Option 1 Historical Pricing Review" report. This report shows that switching the City from Option 1 to Option 2 has resulted in a higher charge to the City for core items under this contract. The City is requesting a credit from Office Depot in the form of a lump sum check, in the amount of \$51,311.00, as a result of Office Depot switching the City to a more costly pricing plan without written consent.

The City is also requesting the following requirements pursuant to this audit:

- Provide to the City a complete comparative analysis (from October 2006 – September 2007), similar to the one provided to the City from October 2007 – April 2009 titled "Option 2 vs. Option 1 Historical Pricing Review" report. Please include all price calculations. Any additional credits to the City will be requested if applicable. The City is requesting this report within 30 days from date of this letter.



- If there was any missing data from the comparative analysis for October 2007 – April 2009, since invoices were missing and price calculations were not provided for all fields, please provide that missing information.
- Provide the L.A. County ISD Purchasing Division approved versions, and any updates thereof, of Core Lists for the years 2006, 2007, and 2008, including the approvals.

The City of Fort Lauderdale is requesting the following requirements as we move forward with our Contract with Office Depot:

- Provide a full explanation of pricing plan(s) solicited/changes, available in writing and via presentation. Thus, from the onset and throughout the Contract the City is aware and understands the pricing plan structure(s) in order to perform periodic price verifications and train users to verify the accuracy of pricing items ordered. No change in pricing plan should occur unless written consent is given by the City.
- Provide the City with an electronic net pricer report each year for the new pricing plan in order to perform a verification to confirm the accuracy of prices charged, including any revisions. If net pricer report does not include all prices (catalog, website, store, etc.) provide a supplementary report to include all items omitted.
- Office Depot shall furnish U.S. Communities and the City of all price, cost (if applicable) and core list price changes, and furnish/post on the U.S. Communities website.
- Office Depot shall provide on every invoice/web payment confirmation, and Office Depot confirmation e-mail of web purchase, the “list price” and “City’s price”. Also provide a catalog with the same specifications for all listed items, as quoted in June-December 2007 catalog be published and provided.
- The City will work with Office Depot to update/revise the City’s current P-Card users.
- Office Depot will continue to provide to the City proper Insurance Certificates, which will be approved by the City’s Risk Manager.

The City is committed to providing customer satisfaction and transparency. If you have questions, please give me a call at 954-828-5677 or e-mail [mwalker@fortlauderdale.gov](mailto:mwalker@fortlauderdale.gov).

Sincerely,

Michael Walker, CPPB, A.P.P.  
Procurement and Contracts Manager  
City of Fort Lauderdale  
100 N. Andrews Avenue, Rm. 619  
Fort Lauderdale, FL 33301