



OFFICE OF THE CITY AUDITOR AND CLERK
Internal Audit Division

Date: January 22, 2010
To: Robert Bartolotta, City Manager
From: Pamela M. Nadalini, Acting City Auditor and Clerk 
Subject: #EX 10-02: Review of Office Depot Supplies Contract

On December 9, 2009, the Manager of Internal Audit learned of several on-going and completed investigations involving pricing discrepancies with Office Depot government contracts.

The purpose of this project was to determine whether the City had been appropriately invoiced by Office Depot according to the State of Florida Pricing list.

Background

The U.S. Communities Government Purchasing Alliance (U.S. Communities) approved Contract Master Purchase Agreement #42595 for the procurement of various office supplies and products from Office Depot in 2006. Since the time of the contract award date, several governmental and other entities that are members of U.S. Communities have piggybacked¹ on this contract for the purpose of purchasing products at discounted rates. In January 2007, the State of Florida adopted the contract as an alternate contract source for office and classroom supplies; the City of Sarasota piggybacked on the State's contract and pricing lists at the time of adoption.

The City of Sarasota's yearly expenditures with Office Depot have been as follows according to reports generated by the City's Financial Management System (FMS):

FY 2007	FY 2008	FY 2009
\$183,078.67	\$139,184.78	\$129,554.75

Recently, entities around the nation have performed (or are currently performing) investigations of Office Depot as a result of claims made by a former Office Depot employee. The former employee alleged that government agencies using the U.S. Communities Office Depot contract were not being billed according to the specifications of the contract, resulting in government overcharges. The claim focused on the pricing plans associated with the contract and alleged that some customers were switched from the original pricing plan (Option 1) to a simpler, but more costly pricing plan without the customer's knowledge (Option 2).

¹ Piggyback Cooperatives are a less formal intergovernmental joint arrangement in which a large purchaser requests competitive sealed bids, enters into a contract, and arranges, as part of the contract, for other public procurement units to purchase from the selected vendor under the same terms and conditions. (Source: "Keys" to the City of Sarasota's General Services Department pamphlet)

The two pricing plans involved in the investigations are:

- *Option 1*- 70% discount off the list price for “most frequently ordered items” list, 45% discount off the list price for additional contract items, and 10% off the list price for other catalog items
- *Option 2*- Flat discounted rate of 10% off the listed website price of all items (specific to ordering online)

A third pricing plan exists as part of Florida’s statewide contract, which is the State of Florida Pricing plan. This plan lists fixed prices for the list of “most frequently ordered items” and other additional Office Depot products.

Due to claims of unauthorized changes in pricing plans, several governmental entities have reported being overcharged for products and have requested or received refunds from Office Depot. It is important to note that only customers using the U.S. Communities contract on the Option 2 pricing plan have reported these discrepancies.

Both the City’s Purchasing Manager and the local Office Depot District Sales Manager stated to the auditor that the City of Sarasota had been utilizing the State of Florida’s Office Depot contract and the State of Florida Pricing list rather than either Option 1 or Option 2 pricing, which left the City unaffected by price discrepancies noted by other governmental entities.

Although all known discrepancies have occurred with entities on the Option 2 pricing plan under the U.S. Communities contract, the auditor pursued testing of the State of Florida contract pricing lists to ensure that similar inconsistencies did not exist.

Conclusion

Detailed price testing of 11,789 order instances from the period February 1, 2007- December 18, 2009 revealed no evidence that the City had been consistently overcharged for products. The auditor determined that prices invoiced to the City of Sarasota were in accordance with those noted on the State of Florida Pricing lists with some minor exceptions. Several items tested were found to be priced at less than the amount stated in the contract.

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