



SPECIAL ADVISORY REPORT

Review of City's Office Depot Procurement Program

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Auditor

SPECIAL ADVISORY REPORTS

A Special Advisory Report (SAR) provides information based on a limited review or time-critical assessment, investigation or evaluation as requested by City management. While not always in full compliance with audit reporting standards, SARs are non-audit services that further the accountability of the City by providing a reporting vehicle that is flexible, quickly issued, and focused on singular issues.

KEY ISSUE

The Director of Purchasing for the City and County of Denver (City) requested this review. The purpose of this non-audit service was to provide objective analysis and assurance that the City was not overcharged when purchasing products from Office Depot.

BACKGROUND

The City participates in a purchasing cooperative with U.S. Communities. "The U.S. Communities Government Purchasing Alliance ... is a nationwide purchasing cooperative designed to be a procurement resource for local and state government agencies, school districts (K-12), higher education and nonprofits. As a registered participant of the program, ... [agencies] can access a broad line of competitively solicited contracts which provide quality products, services and solutions."¹ This partnership allows U.S. Communities

members to increase their purchasing power resulting in greater discounts. U.S. Communities provides the City with a list of over 21,000 items with fixed prices, including 1,200 Core items,² 700 Clearance items, and 3,000 Cleaning and Break Room items. In total, the City has access to more than 50,000 items available for purchase through Office Depot.

From April 2008 through March 2009, City purchases under this program totaled approximately \$1.9 million.³ Approximately 66% of this amount was for Non-core items.⁴

A former account manager in Office Depot's Business Solutions Division alleged Office Depot was overcharging U.S. Communities participants throughout the United States. The former employee alleged five fraudulent activities: (1) Switching customers from Pricing Option 1 to Pricing Option 2 without their knowledge (Option 1 gave customers a discount of 70% off the list price for a specified set of "most frequently ordered items," 45% off the list price for other Office Depot catalog items, and 10% off the list price for wholesale catalog items. Option 2 gave a flat discount of 10% off the retail price of all items), (2) manipulating web pricing resulting in overcharges, (3)

¹ Source: U.S. Communities Website: <http://www.uscommunities.org> (accessed October 8, 2009).

² Core items: Agreed upon contracted items with fixed pricing. Non-core items: All other items available for purchase.

³ Source: Office Depot Business Review Report, (Obtained 7-28-09).

⁴ *Ibid.*

changing prices on items that differed from contract terms, (4) failing to give customers the best price, and (5) entering false cost data in the Office Depot ordering system.

METHODOLOGY

Auditors utilized the following methods as part of this review:

- Interviewed individuals with purchasing responsibility from the Civil Service Commission, Purchasing Division, Auditor's Office, and Department of Aviation to gain an understanding of the purchasing process and to identify areas of concern. Additionally, auditors interviewed the City's Office Depot account managers as part of this review. Additionally,
- Randomly selected and tested purchases made in 2006, 2007, 2008, and 2009 to determine the accuracy of Office Depot prices as stated in the contract.
- Randomly selected and tested items to ensure the City received a lower aggregate price when compared to prices offered the general public.
- Reviewed a sample of items to ensure prices changed only at times allowed by the contract.
- Conducted job shadowing and reviewed audits from other government entities related to these allegations.

CONCLUSION

Based on our observations, it appears the City is being charged correctly for items ordered from Office Depot through this

program. Our general review of the five allegations determined the following:

(1) Research indicated that nationally some discrepancies appeared to have occurred when organizations changed from Option 1 to Option 2. However, the City has always been under Option 1. Moreover, as of March 27, 2009 Option 2 is no longer available.

(2) Auditors were unable to substantiate the allegation that web based pricing was being manipulated. Currently, items listed on the Office Depot website only identify deeply discounted items by stating "Best Value" or "Preferred." Non-core items are not designated.

(3) Auditors identified instances where prices changed at times other than agreed upon dates. However, it was typically only by one day and deemed insignificant.

(4) Auditors determined that individual items can be purchased at prices below contracted amounts. However, Auditors found the City's overall pricing under this program to be lower when compared to prices offered to the general public. No Core items were found to be incorrectly priced.

(5) Auditors were unable to obtain manufacturers cost listings so no determination could be made regarding the accuracy of program discounts.

RECOMMENDATION

Purchasing should consider linking all procurement cards to the City's Office Depot account to ensure optimal pricing when purchasing items at store locations.

SAR TEAM

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