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Lee County Government



Office Depot Product Pricing

January 2006 – September 2008

LeeClerk.ORG
CHARLIE GREEN: CLERK OF COURT

Internal Audit Department
2008.29
September 2008

September 22, 2008

The Honorable Charlie Green Clerk, Lee County

Re: Audit of Office Depot Product Pricing January 2006 – September 2008.

Dear Mr. Green:

The Internal Audit Department has conducted an audit of Office Depot Product Pricing January 2006 – September 2008. Chuck Short, CIA, has completed this review.

The response to the auditor's conclusions, issues and recommendations is attached to this report. The auditors wish to thank the Lee County employees for their assistance and cooperation during the review.

This Report has been posted to the Clerk of Courts website www.leeclerk.org under Internal Audit, Audit Reports. The [hyperlink](#) to the report has been sent to the Lee County Board of County Commissioners and appropriate parties.

Sincerely,

A handwritten signature in cursive script that reads "Chuck Short". The signature is written in dark ink and is positioned above the typed name and title.

Chuck Short, Director
Internal Audit Department

CTS/mjr

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Office Depot Product Pricing

January 2006 – September 2008



Introduction

Lee County Clerk of Courts Internal Audit Department has completed an audit of pricing of office supplies purchased from Office Depot (Company). On January 10, 2006, the Board of County Commissioners approved the use of the new US Communities sponsored Los Angeles County (CA) contract (Agreement) for the purchase of office supplies.

The audit was performed in accordance with general auditing standards for the professional practice of Internal Auditing. Audit work paper files contain details supporting the findings, conclusions and recommendations in this report.

Conclusions

Lee County purchased office supplies from the Company for the period January 10, 2006 to September 2, 2008, under the Agreement, in the amount of \$2.2 million involving 13,296 transactions. During this period the Company provided 778 credits amounting to \$63,641 for price adjustments and returned merchandise.

Discrepancies (166) between order price and invoice price amounting to \$5,680.57 have been reported by twenty ordering departments. The Company has provided credits for each discrepancy.

Audits of prices for accuracy and consistency with the discounts listed in the Agreement are not performed by departments. Lee County Purchasing Department has indicated this is the responsibility of US Communities.

In April 2007, on recommendation of the Company sales representative Lee County switched from the "Option 1" pricing plan to the "Option 2" pricing plan. This switch resulted in a large cost increase to the County. A sample of 5,738 items purchased in 2008 indicated Option 2 prices for the quantity purchased was \$58,105.81 more than Option 1 prices.

The prices for office supplies are fixed based on schedules in the Agreement. The schedules are listed in seven categories and each category has pricing formulas that are not determinable by the individuals ordering supplies in the various County departments.

Recommendation

That Lee County withdraw from the US Communities LA County Agreement and request bids from all office supply vendors. These bids can require terms regarding pricing not currently available in the present Agreement.

Findings

Purchasing Supplies

Purchasing office supplies is the responsibility of account clerks in various County Departments. Prices of items to purchase are on the Office Depot web site. Each account clerk is provided access to the web site by the Purchasing Department. A copy of the order is retained and matched to the packing slip on delivery and to the invoice received on line from the Clerk's Accounts Payable Department. The ordering, receiving and quantity/price verifications are performed by different employees in the departments.

The price verification process identifies discrepancies that are referred to the Company and credits are promptly issued. In some instances prices invoiced are less than prices on the order. The Company does not issue adjusted invoices for the under priced items.

Price Changes

Communication of price changes is not made to Lee County.

The Agreement stipulates: *that prices for products covered herein will be based on a Discount from Manufacturers current established price lists or Cost plus Percentage except for those identified as Core Products. (Para. 6.2.1)*

and,

The Agreement further states that: *Vendor will be responsible for furnishing and delivering approved price lists to all County departments and other participating Government entities. (Para 6.2.2)*

and,

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.(Para 6.2.3)

Without the Manufacturers current established price lists there can be no determination of any Discount from List or Cost plus Percentage for core products. The Agreement states that: *Any changes, substitutions, additions, deletions and/or pricing revisions must be reviewed and approved by The County and Vendor prior to any inclusion to the Agreement. (Para 6.5.1)*

The Lee County Purchasing Department states that they have received no notices of price changes from US Communities. They maintain this is an issue between Office Depot and US Communities.

Recommendation

That Lee County Purchasing become proactive in management of Master Agreement Contracts.

“Core List” Prices

“Core List” prices provided by the Company were compared to samples of invoices randomly selected from 2006, 2007 and 2008 (thru April).

For 2006, we selected 494 items purchased and 71 were “Core List” items; the price on 7 items did not agree with the “Core List”; the total price variance was \$34.49.

For 2007, we selected 468 items purchased and 88 were “Core List” items; the price on 22 items did not agree with the “Core List”; the price variance was 17 items over priced \$6.83 and 5 items under priced \$ 13.10.

For 2008, we selected 105 items purchased and 25 were “Core List” items; the price on 2 items did not agree with the “Core List”; both items were under priced for a total of \$17.00.

US Communities Option 1 Prices (US Comm)

For 2007, we selected 251 items purchased and; the prices on 67 items invoiced were greater than the US Comm Option 1 prices amounting to an overcharge of \$235.63; the prices on 46 items invoiced were less than the US Comm Option 1 prices amounting to an undercharge of \$188.23; resulting in a net overcharge of \$47.40.

US Communities Option 2 Prices (US Comm)

For 2007, we selected 251 items purchased and; the prices on 19 items invoiced were greater than the US Comm Option 2 prices amounting to an overcharge of \$42.13; the prices on 72 items invoiced were less than the US Comm Option 2 prices amounting to an undercharge of \$112.62. resulting in a net undercharge of \$70.49.

US Communities Option 1 compared to Option 2 Prices (US Comm)

For 2008 we selected a sample of 91 items purchased under the Option 2 price schedule. The prices on 84 items were less on Option 1 than Option 2 amounting to \$169.39; the prices on 7 items were greater on Option1 than Option 2 amounting to \$39.49. The result being the switch from Option 1 to Option 2 cost the County in 2008 for this random sample amounted \$129.90.

Core List Product Changes

The price lists provided by the Company at the auditors request indicated that the number of Core Items available to Lee County departments was reduced from 449 in 2006, to 446 in 2007, and to 429 in 2008. Notification of these changes was not reported to Purchasing for authorization.

Discount Schedules

The Agreement lists the discounts allowed for various products. Exhibit A1 and A3. The February 20, 2008, product price list for US Comm included 18,638 items. A review of the actual discounts identified percentages ranging from 4% to 90%. Purchasing clerks in the County departments use the price shown on the Company web site and do not recompute the discount.

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.