



WENDY GREUEL
CONTROLLER

September 11, 2009

Tony M. Royster, General Manager and City Purchasing Agent
Department of General Services
Room 701, City Hall South
Los Angeles, CA 90012

Dear Mr. Royster:

**SUBJECT: EVALUATION OF RESPONSE TO THE REVIEW OF CITY'S
CONTRACT WITH OFFICE DEPOT FOR THE PURCHASE OF
OFFICE SUPPLIES**

My Audit Division has reviewed your June 25, 2009 response to the "Review of the City's Contract with Office Depot for the Purchase of Office Supplies." We understand that all contract pricing schedules which were the subject of this review have been eliminated under a recent LA County Master Agreement amendment, and that a new fixed price office supply contract with Office Depot has been adopted. This is an encouraging result, as it will eliminate the contractor's discretion over varying pricing. Based on your response, recommendations #2 and #4 have been adequately addressed. However, there are a number of points that require additional comments, as noted here.

Finding # 1:

The City purchased \$2.6 million in products from unauthorized catalogs, at unfavorable discount pricing that was not disclosed to departmental users.

Your response indicates that the City contract incorporated all of the terms of the Los Angeles County Master Agreement. However, while the City contract listed some catalogs with favorable discounts, there was no explicit language in the City contract that allowed the purchase of other items at less favorable pricing.



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GSD staff acknowledged the absence of specific contract language, asserting that under a "piggyback" agreement all terms and conditions of the Master Agreement are automatically adopted. This assertion is detrimental to Department users who cannot rely on City contracts to fully disclose critical information, and will therefore be unable to make informed purchasing decisions.

Your response also appears inconsistent with actions taken under the recently amended Master Agreement, whereby you are not incorporating all terms and conditions under the "piggyback" agreement. Your staff has indicated that unfavorable pricing provisions for non-catalog items which are listed in the Master Agreement are not authorized under the City contract and will not be incorporated, which we are pleased to accept.

Your response also indicates that Office Depot has determined that the City saved approximately \$1.9 million during 2008 by purchasing items under the City's contract over the retail website. First, you stated that Office Depot made this determination; however you do not indicate whether or not the City performed any independent review to validate the information provided. Second, this type of savings was already expected under the master agreement, as it should not be used as an offset to the unfavorable discount terms disclosed by this review.

Finding # 2:

The City purchased at least \$123,000 in blocked items that were specifically prohibited by the contract.

Your response notes that the Los Angeles Public Library (LAPL) accounted for \$63,754 of the \$123,000 in prohibited paper purchases. In addition, you stated that GSD and the vendor (incorrectly) understood that LAPL did not utilize this contract. Though LAPL does not utilize SMS or e-procurement, it is still imperative for GSD to ensure that both Departmental users and vendors understand and comply with all terms of Citywide contracts.

We are pleased to note that you have met with the vendor to discuss strategies for blocking excluded items, and we reiterate our recommendation to require Office Dept to take additional actions to ensure they are blocked. Your response to recommendation #3 on page 3, however, states that you intend to work with the Controller's Demand Audit Section on the feasibility of returning unused supplies. The intention of the recommendation, however, is to encourage you to take a proactive approach to ensure that unauthorized purchases do not occur in

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the first place; such actions would include the implementation of adequate contract monitoring.

Finding # 3:

The City purchased \$434,000 in Specialty and Manufacturer Direct items with unfavorable discount pricing that was not disclosed to departmental users.

Your response reiterates that these items were included in the LA County Master Agreement and thus would have been authorized, even though there is no explicit language in the City contract authorizing these items at the respective unfavorable discount pricing. However, if department users had disclosure of the unfavorable terms up front, as clarified through Amendments 8 and 9, alternate purchasing decisions could have been considered.

You again noted a pricing comparison performed by the vendor in 2006 showed that the City saves approximately \$2 million per year when compared to retail pricing. While this amount appears significant at face value, it is surely a reasonable expectation that an organization with the tremendous purchasing power of the City of Los Angeles can achieve substantially better terms than paying standard retail prices.

If you have any questions or comments, please contact Farid Saffar, Director of Auditing at (213) 978-7392.

Sincerely,



WENDY GREUEL
City Controller