

CITY OF LOS ANGELES
CALIFORNIA

DEPARTMENT OF
GENERAL SERVICES

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June 25, 2009

Rushmore D. Cervantes, Acting City Controller
Office of the City Controller
200 North Main Street, Room 300
Los Angeles, California 90012

ATTENTION: Farid Saffar
Director of Auditing

RESPONSE TO AUDIT REPORT—OFFICE DEPOT CONTRACT REVIEW

In reference to your audit report dated May 20, 2009 for the Office Depot Audit, contract #58540, the City of Los Angeles continues to work with U.S. Communities in ensuring that the City continues to obtain the lowest possible prices for office supplies. In addition to obtaining the lowest possible prices, the City has collected a total of \$1,629,255.49 in rebates from Office Depot since the inception of this contract in 2006 to fiscal year 2008-09.

The following are our responses to your findings and recommendations:

Finding #1: The City purchased \$2.6 million in products from unauthorized catalogs, at unfavorable discount pricing that was not disclosed to departmental users.

Response: The audit concluded that because wholesale/special order catalogs were not explicitly listed in the City contract, that the City's purchases of items in these catalogs were unauthorized and had unfavorable discounts.

The City contract includes all of the terms of the Los Angeles County Master Agreement, which is incorporated into the City contract. As a result, the City's contract includes wholesale/special order catalog items at a discount of 10% off list price, as set forth in the Los Angeles County Master Agreement. Notably, the City clarified this understanding with Amendment Nos. 8 and 9 to the City contract on October 17, 2008 and January 30, 2009, respectively.



Additionally, the City contract does not require that every item always be priced less than every item available on the retail website. While certain items on Office Depot's retail website may, on occasion, be priced lower than items under the City's contract, overall the City receives better pricing and deeper discounts by purchasing under the City contract than simply purchasing at retail website pricing. 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.

We will continue to work with Office Depot to block true "unauthorized" items from their Business Services Division's (BSD) website. In addition, we will continue to encourage end-users through electronic notifications and quarterly meetings to use e-Procurement, the City's portal to the BSD site, to purchase Office Depot supplies.

Finding #2: The City purchased at least \$123,000 in blocked items that were specifically prohibited by the contract.

Response: It should be noted that the Los Angeles Public Library (LAPL), which both Office Depot and the City understood did not use the City contract for their Office Depot purchases, accounted for approximately \$63,754 of the \$123,000 paper purchases. It was understood that LAPL did not have any restrictions on paper purchased from Office Depot nor was Office Depot required to block such items from being purchased. Office Depot and LAPL have recently been advised that all LAPL purchases fall under the auspices of the City contract. Accordingly, Office Depot has now blocked these items from being purchased by LAPL.

We have met with representatives from Office Depot to discuss strategies for blocking appropriately excluded items from being purchased. If ordering excluded items continues after the strategies are implemented, then we will work with the Controller's Demand Audit Section on the feasibility to require departments to return such items prior to payment and use. We will also work with the City Attorney's Office on the possibility of collecting any future charges for prohibited items.

Finding #3: The City purchased \$434,000 in Specialty and Manufacturer Direct Items with unfavorable discount pricing that was not disclosed to departmental users.

Response: The audit concludes that the City purchased specialty and manufacturer-direct items at unfavorable discounts. However, all of these items were properly purchased pursuant to the City contract and the City did indeed receive the correct discount.

As stated in the response for Finding #1 above, the Los Angeles County Master Agreement is incorporated into the City contract. As a result, the City contract includes Specialty/Manufacturer-direct items at a discount of 10% off list price. Amendments Nos. 8 and 9 further clarified this understanding.

The pricing comparison from 2006 shows that the current contract pricing saves the City approximately \$2 million per year when compared to their retail pricing. This is in addition to the annual rebates that we receive from Office Depot each year.

Recommendations:

In reading your recommendations, we disagree with the comment that amendments 8 and 9 "validated the less favorable discount terms for many items sold to the City." It should be noted that amendments 8 and 9 of the contract were to *clarify* the intent of the pricing, not validate the less favorable discount terms.

Our response to each of your recommendations is as follows:

1. Ensure that City department users/purchasing agents are provided with adequate disclosure of contract terms and revisions.

Response: Department users have always had access to review the contract online through SMS. A review of the hard file is available upon request.

2. Ensure that only BSD Big Book listed catalog items are purchased under the contract.

Response: This item has already been resolved. Office Depot is listing only approved catalog item purchases on their web portal that is accessed through the City's e-Procurement purchasing process.

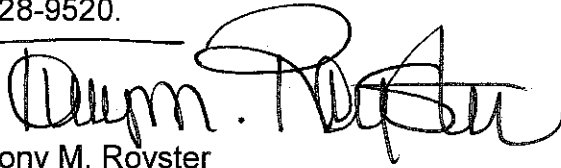
3. Require Office Depot to take additional actions to ensure that contract excluded items are blocked from purchase, and to only sell items that are authorized by the contract.

Response: As stated above, we will work with the Controller's Demand Audit section on the feasibility of returning unused supplies.

4. Require that Office Depot include the City's CPO information or invoice number on their monthly usage report, in order to have a common identifier with SMS and facilitate appropriate compliance monitoring.

Response: Starting with their May 2009 report, Office Depot will start to include the PO and invoice numbers on their monthly usage report.

Should you need additional information, please contact Alfred Lopez at (213) 928-9520.



Tony M. Royster
General Manager and City Purchasing Agent
General Services Department