

**Audit Report  
Office Depot Contract  
March 17, 2016**

City of Charlotte  
City Auditor's Office  
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# Purpose and Scope

Over the last several years, many U.S. municipalities have conducted audits and investigations of their contract(s) with Office Depot. Sometimes these efforts have resulted in significant payments to the federal, state or local governments initiating the reviews.

The purpose of the audit was to determine if Citywide purchases from Office Depot complied with the existing contract and to verify the pricing accuracy of the office supplies purchased. The audit focused on the period July 2010 through December 2014.

This report is intended for the use of the City Manager's Office, City Council and all City Departments.

# Conclusion

The City of Charlotte's contract is significantly different than those of cities which have experienced pervasive pricing issues with Office Depot. While pricing errors can occur, the City's exposure to a significant cost impact is low.

# Summary of Findings and Audit Response

Additional monitoring should be conducted by departments, under Management and Financial Services Finance Office – Procurement Management’s (Procurement Management’s) direction, to provide assurance that past errors in the following areas do not become significant:

1. Pricing inaccuracies
2. Delivery fees outside contract terms
3. Timely and accurate receipt of rebates

Each of these is addressed in the Audit Results section; pp. 10–12, with overall recommendations and responses following.

- ▶ **Note:** Procurement Management’s actions appear appropriate and adequate to address the identified risks.

# Audit Approach (page 1 of 2)

- ▶ During the audit period, Office Depot submitted invoices totaling \$2.7 million. Auditors tested \$864,499, or about 32% of the amount invoiced.
- ▶ For a sample of invoices, auditors determined whether:
  - the unit prices the City paid matched the contract prices
  - delivery fees were billed in accordance with the contract
  - the total rebates paid to the City were accurate.

# Audit Approach (page 2 of 2)

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Background (page 1 of 2)

- ▶ The Office Depot contract was approved by Council on June 28, 2010. The contract covered three years, beginning July 1, 2010, and authorized the City Manager to extend the contract for two additional one-year terms. The estimated annual expenditures were \$700,000 and allowed for possible price adjustments.
- ▶ During the contract term, there were six amendments, and both extensions for 2013 and 2014 were exercised.
- ▶ The contract amendment on February 16, 2011, established a quarterly rebate equal to 2.5% of the “Net Spend.”

# Background (page 2 of 2)

- ▶ The Office Depot contract expired June 30, 2015. An Invitation to Bid was advertised by M&FS – Procurement (Procurement) and Office Depot was the recommended vendor. City Council approved the new contract on June 22, 2015.
- ▶ The initial term of the contract is three years, with the option of two, one-year extensions. The total contract value over five years is \$6.25M, based on estimated annual expenditures of \$1.25M.

# Audit Results

# Areas of Contract Monitoring (page 1 of 3)

## 1. Pricing Inaccuracies

- Auditors tested pricing accuracy for 23,030 items totaling \$864,499 (audit software facilitated large scale electronic price comparisons).
- Office Depot applied the incorrect percentage discount or charged the incorrect unit price to some City purchases, causing a net undercharge to the City of \$21,361.
- This error persisted after the City and Office Depot became aware of the issue, resulting in an additional City undercharge of \$13,567. Office Depot did not request that the City return the funds since it was their error.

# Areas of Contract Monitoring (page 2 of 3)

- 2. Delivery fees outside contract terms
  - The contracted delivery fee increased from \$24.99 to amounts ranging from \$29.99 to \$69.99.
  - During the contract, Office Depot began calculating the delivery fee based on the dollar amount purchased instead of a flat fee (which was not contractually allowed). Office Depot did not notify the City of the new fee structure.
  - While errors noted were immaterial, Departments' unfamiliarity with the delivery fee structure increased the risk that the City could overpay the vendor.

# Areas of Contract Monitoring (page 3 of 3)

- 3. Timely and accurate receipt of rebates
  - Six instances were noted in which a rebate check was not received within 45 days of the quarter-end, per contract terms.
  - Auditors' recalculation of the total rebate paid noted that Office Depot overpaid the City \$309.
  - Three rebate checks totaling \$21,634 mailed to the attention of Procurement Management were deposited by others in the City, without being delivered to Procurement. Inconsistent handling of rebate checks has inhibited Procurement Management's ability to monitor the deposits.

# Contract Monitoring Recommendations

- Procurement Management should establish contract monitoring guidelines for itself and departments.
- Contracts should be monitored in enough detail to allow recognition of billing errors and fee changes.
- Procurement Management should establish a simplified approach to manage the receipt of rebate checks and monitor rebate activity to ensure that payments are received timely, per contract terms.

# Management Actions Taken & Response

- ▶ In August 2015, Procurement Management met with departments, discussed the new contract changes and instructed approvers to review their department's orders.
- ▶ In November 2015, Procurement Management began reviewing the quarterly reports from Office Depot for contract compliance. Additional resources would allow closer scrutiny.
- ▶ **Management and Financial Services Response:** We have implemented more stringent reporting guidelines and deadlines for Office Depot and will continue to work with departments on compliance efforts. Where possible, we will implement electronic receipt of rebates and work with Finance–Treasury to provided more monitoring of expected rebates.