


**Collier County
Clerk of the Circuit Court
Internal Audit Department**

Management Advisory 2008 – 4

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Comparison of Invoice Pricing to Bid Pricing on Collier County Bid 07-4127, Office Supplies

BACKGROUND

On March 29, 2007, the Collier County Purchasing Department posted an Invitation to Bid on office supplies. According to the bid specifications, the purpose was to procure quality office supplies from a vendor that could provide “prompt, reliable service to all using agencies at fair and reasonable prices.” The specifications mandated the vendor to provide an online ordering system showing the actual prices that the County would pay for items ordered. The County intended to award this contract to a single vendor, initially for two years. Quoting again from bid specifications, “Award of this bid shall be made to the firm who offers the highest discount, qualified and responsive bidder(s).”

In order to evaluate bids comparatively, Purchasing incorporated a schedule of 121 high use items into the specifications, and directed bidders to submit their “catalog price less the bidder’s discount” for those items. The bid also directed that “pricing for all remaining office supplies shall be submitted in the form of a discount off distributor’s/manufacturer’s designated list price as published in the current S.P. Richards, United Stationers, or similarly approved wholesale catalog.”

Purchasing received three bids by the deadline of April 25, 2007, determining one of those bids, from Office Depot, to be non-responsive. In the two remaining bids, Corporate Express offered a discount of 61%, and Marco Office Supply offered a 52% discount. Staff tabulated both bids’ data, and recommended Corporate Express to the Board of County Commissioners (BCC) as the successful bidder.

At the July 25, 2007, regular Board meeting, a representative of the unsuccessful bidder, Marco Office Supply, protested the award of Bid 07-4127 to Corporate Express, the

presumptive low bidder. The company's protest centered on pricing differences between bidders' respective catalogs, claiming that Corporate Express prints and thereby controls the pricing in its own catalog, while Marco Office Supply uses a national wholesaler catalog. The Marco Office Supply representative also questioned Corporate Express' ability to give a 61% discount on Hewlett-Packard (HP) cartridges. The BCC voted unanimously to ask the County Manager to conduct an independent examination of the fairness of the bid evaluation and award process.

The Board heard and accepted the Office of Management and Budget's (OMB) report on review of Bid 07-4127 on September 12, 2007. The report concluded that this bid followed the Purchasing policy, that the recommendation to award was consistent with the terms of the invitation to bid, and that the Purchasing Department's decision was correct. At that Board meeting, the Collier County Purchasing Director reinforced the requirement for a singular discount off office products. Also in that forum, a representative from Corporate Express pledged to give the County a 61% discount on all HP products.

With respect to pricing, Corporate Express prints its own annual Sourcebook catalog and a quarterly List Price Guide. The List Price Guide contains a similar product mix as the Sourcebook catalog, but it is printed on a quarterly basis to reflect pricing adjustments. The company also sells additional office products through other sources such as the United Stationers catalog. Office products regardless of their source should be represented in the company's on-line ordering system known as "E-Way," which, according to Corporate Express, is supposed to reflect published list price.

The Clerk's Accounts Payable function receives Corporate Express invoices on a routine basis and conducts a standard review to ensure that prices are consistent with bid terms and that legal payment can be made. In fulfilling that role, Accounts Payable validates invoice price against list price net of the 61% discount. Accounts Payable has identified a number of issues through this process. For example, Accounts Payable originally used E-Way rather than the List Price Guide as the mechanism to check list price prior to discount. Although these two sources should be consistent, it became apparent that prices in E-Way are often higher than prices in the List Price Guide. In addition, Accounts Payable determined that in some instances Corporate Express was not applying the contracted 61% discount. Due to these issues Internal Audit conducted a more detailed evaluation of Corporate Express invoices and pricing structure.

In the course of this examination we compared Collier County's office supplies procurement process with other jurisdictions. The State of Florida, Sarasota County, Lee County and the Collier County School Board leverage an agreement with Office Depot accessible through the U.S. Communities Government Purchasing Alliance. This agreement affords a 70% discount from list price for most frequently ordered core products, and holds prices firm for the first year, with semiannual increases thereafter.

The purpose of Internal Audit's examination was to test actual prices paid under this contract award for conformity to the terms and conditions of the successful bid. The period extended from December 2007 through April 2008.

RESULTS OF ANALYSIS

Price Validation Unfeasible on Large Selection of High Use Items

Bid 07-4127 required bidders to submit pricing on 121 high-use items (office products commonly ordered) for price comparison purposes. Bidders were asked to submit copies of their current catalogs so that Purchasing could validate price on these high-use items; Corporate Express submitted its 2007 Sourcebook Catalog, which the company prints, and Marco Office Supply furnished a 2007 catalog reflecting items supplied by S.P. Richards, a national wholesaler. Office Depot was deemed to be non-responsive with its bid. Purchasing, with respect to price validation, asserted that it was able to validate all items for Corporate Express, but unable to confirm 25 products for Marco Office Supply. As a result, Purchasing removed the 25 unverifiable items from the price comparison. Despite the fact that some high-use products were eliminated from the price comparison, the bid specifies that the winning bidder must supply all high-use items during the actual contract period and provide a standard discount off list price for these products.

Subsequent to the contract taking effect Accounts Payable has faced issues in matching products invoiced by Corporate Express against the company's 2008 Sourcebook catalog, which is the current catalog. Consequently, Internal Audit tested all 121 high-use items to verify their inclusion in either the 2007 Sourcebook catalog, which Corporate Express submitted as part of the bid, or the 2008 Sourcebook catalog. Internal Audit's testing revealed that 38% (46/121) of high-use products could not be verified in either catalog published by Corporate Express. Two fundamental questions resulted from the analysis:

- Which source should Accounts Payable use to validate the prices of high-use products not contained in the Sourcebook catalog?
- Why did Purchasing on the one hand remove high-use items that could not be verified in Marco Office Supply's catalog while on the other hand retain high-use items seemingly not represented in the Corporate Express catalog?

Purchasing is currently evaluating the list of high use items seemingly not represented in the Sourcebook catalog in order to address the issues noted above. Accounts Payable must be provided with a bid-compliant source for all high use items as a means of price validation, whether the source is the Sourcebook catalog or a separate publication.

County Departments Purchasing Non-Bid Products at Higher Rates

Purchasing has indicated that bid items include 1) products contained in the catalog submitted as part of the bid, 2) high-use items regardless of source, and 3) HP products, for which Corporate Express pledged to offer the contracted discount. Corporate Express as the winning bidder offered a 61% discount on all bid products. The Invitation to Bid specified that non-bid items, in other words products not meeting the criteria above, could be "added to this contract upon satisfactory negotiation of price by the Contract Manager and Vendor."

Through audit testing and information provided by Clerk's Accounts Payable, we identified a number of products invoiced by Corporate Express that have not received the contracted 61% discount, including one high use item. According to the Purchasing Department, Corporate Express considers these office supplies to be "non-bid" and thus ineligible for the

61% discount, specifically those supplies not included in the company's Sourcebook catalog. The following table summarizes identified items which have not received the standard discount specified in Bid No. 07-4127.

Office Supplies Invoiced to Collier County at Non-Bid Price

Invoice Number	Description	E-Way List Price	Invoice Price	Expected Price w/ Discount	Difference	% Discount
84958056	HP Printer Transfer Kit	238.00	238.00	92.82	145.18	0%
85395209	Poster Board	13.79	13.79	5.38	8.41	0%
83952195	Thermal Paper	77.61	77.60	30.27	47.33	0%
83570092	Coffee	24.00	21.60	9.36	12.24	10%
85706921	Toner Cartridge	184.75	164.13	72.05	92.08	11%
85532799	Rubber Bands	6.39	5.44	2.49	2.95	15%
85570419	HP Toner Cartridge (High Use Item)*	132.00	112.19	51.48	60.71	15%
85570419	HP Toner Drum Kit*	126.00	107.68	49.14	58.54	15%
85711050	Fax Toner	54.99	44.83	21.45	23.38	18%
85496035	Project Board	9.48	7.09	3.70	3.39	25%
83747331	Printer Toner	146.00	108.13	56.94	51.19	26%
83978390	Appointment Book	30.89	22.65	12.05	10.60	27%
83978396	File Pockets	4.48	3.06	1.75	1.31	32%
85645034	Bond Roll Paper	132.80	79.69	51.79	27.90	40%
83771771	Paper Towels	46.20	17.04	18.02	-0.98	63%
84958056	Desk Calendar	8.69	2.83	3.39	-0.56	67%
	Column Totals	1236.07	1025.75	482.08	543.67	
				Average Discount		17%

* Please note these products are priced higher in E-Way than the List Price Guide, which is a point covered on page five of this report.

As the table indicates these invoiced items have received a 17% average discount as opposed to the bid discount of 61%. The table reflects a discount ranging from 0-15% for three HP products, including a high use item. Our interpretation of the bid process is that all high-use items and HP products should be receiving a 61% discount. In addition, bid specifications indicate that non-bid items can only be added to the contract through formal negotiations. The table evidences that Corporate Express has made available many non-bid items for County departments to order at a discount rate far lower than 61%. This is in conflict with bid specifications as Purchasing has confirmed that these non-bid items have not been negotiated.

At this time Accounts Payable is holding a number of invoices which reflect a discount not in concert with bid specifications and cannot make payment until these products are invoiced at verifiable bid prices. In addition, Purchasing is planning to negotiate non-bid items with Corporate Express and for the time being, through the on-line ordering system, has restricted

County departments from ordering non-bid products. Purchasing will also be evaluating whether non-bid products can be purchased more economically through alternative vendors.

Price Increases Unsupported by Bid Specifications

The bid specifications requested that pricing be submitted as a discount off designated list price in a published catalog. Corporate Express submitted its 2007 Sourcebook catalog with its bid. The specifications also directed the winning vendor to distribute catalogs **each year** a new catalog becomes available. This wording leads to an expectation of a yearly catalog and accordingly, only yearly price increases. The Purchasing Director reinforced this when he addressed the question of what would prevent Corporate Express from adjusting catalog prices to recover its price discount to Collier County: "Corporate Express issues its price catalog (or source book) on an annual basis. The catalog is used by their customers nationally. It would seem highly unlikely they or any other similar-sized retailer would re-print their source book just to offset price concessions offered to Collier County, Florida."

Subsequent to the contract taking effect, Corporate Express provided Accounts Payable with a quarterly List Price Guide for confirming prices explaining that Sourcebook prices are updated on a quarterly basis. This Guide is supposed to reflect the current list prices for all items in the Sourcebook. However, the bid specifications neither sought nor authorized a quarterly List Price Guide. The specifications did not address quarterly price changes, but rather anticipated only annual changes.

Bid specifications also required an online ordering system, and Corporate Express made available its online system known as E-Way. E-Way permits users to order office supplies and other products. Corporate Express has promoted E-Way to Accounts Payable as an efficient source for confirming invoiced list prices. A Corporate Express representative has stated that E-Way prices should be equal to those found in the List Price Guide, but we could not verify that claim. We tested a sample of high use items to determine the level of consistency between prices in the two sources. Our results indicate that 11 of 15 (73%) of the sampled items are priced higher in E-Way, reflecting a 15% difference from the List Price Guide and a 19% mark-up compared to original bid price. The most significant pricing discrepancy relates to paper, which is a sizeable component of the County's annual expenditure for office supplies. Since County departments commonly use the E-Way system to order products, these pricing discrepancies would cause the County to pay more than bid prices for office products. This is compounded by the fact that E-Way prices can theoretically be increased daily.

Accounts Payable is unable to validate invoice prices until such time as the following open issues are resolved:

- A determination is made on the intent of the bid specifications regarding how often prices can be adjusted; and
- The on-line ordering system reflects the correct price on products.

CONCLUSION

The contract that the Board of County Commissioners awarded pursuant to Bid 07-4127 is not being invoiced in accordance with bid specifications, which is creating difficulty for Accounts Payable in making payments. Corporate Express is offering non-bid products to County departments at less than a 61% discount; the company has established a two tier pricing system with office products contained in its national Sourcebook catalog being discounted 61% while all remaining office products are priced at widely varying levels with some products not discounted at all from list price. The bid expressly required non-bid products to be negotiated prior to being offered for sale. County departments may not be familiar with this bid vs. non-bid distinction which is resulting in excessive prices being paid for office products. Corporate Express has also billed some high use items and HP products at less than a 61% discount, a practice which does not comport with either bid specifications or the commitment the company made to the Board of County Commissioners.

Corporate Express is raising prices on a quarterly basis, a practice not supported by bid specifications. In addition, pricing is not consistent between the on-line E-Way system and the List Price Guide, which raises questions about the Corporate Express billing structure. The fact that a number of high use items are seemingly not included in the Corporate Express catalog makes price validation unfeasible for Accounts Payable.

The significant pricing issues discussed in this report warrant continued evaluation by Purchasing with a potential view toward re-bidding the contract if appropriate remedies cannot be instituted to enable Accounts Payable to make legal payment on Corporate Express invoices. The following steps are critical in enabling Accounts Payable to make payment on Corporate Express invoices, achieving compliance with the bid process and ensuring that the County pays a fair price for office products, thereby maximizing its fiscal resources:

- Consider reevaluating the bid because the failure to confirm catalog prices for a significant segment of high use items casts doubt on the process, which is also evidenced by the confusion surrounding how often prices may be adjusted, and which products are "bid" versus "non-bid."
- Ensure that non-bid products are either unavailable for purchase by County departments or have been negotiated on a formal basis.
- Compel Corporate Express to provide a source catalog for all high use items to facilitate price validation.
- Ensure that all high use items and HP products are invoiced at a 61% discount.
- Solidify the frequency with which list prices can be adjusted.
- Institute controls to ensure that pricing in the E-Way system reflects the appropriate source catalog such as the List Price Guide.