COUNCIL AGENDA: 02-14-12
ITEM: 3.6

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Dennis Hawkins, CMC
City Clerk

SUBJECT: **SEE BELOW**

DATE: 2-1-12

SUBJECT: AUDIT OF OFFICE SUPPLY PURCHASES

RECOMMENDATION

As recommended by the Public Safety, Finance and Strategic Support Committee on January 26, 2012 and outlined in the attached memo previous submitted to the Public Safety, Finance and Strategic Support Committee, accept the City's Auditor's Report on Office Supply Purchases.

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Office of the City Auditor

Report to the City Council
City of San José

OFFICE SUPPLY PURCHASES: The City Did Not Receive All Anticipated Discounts nor Did it Fully Take Advantage of OfficeMax's Environmentally Friendly Offerings

Report 12-01
January 2012

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Office of the City Auditor
Sharon W. Erickson, City Auditor

January 18, 2012

Honorable Mayor and Members
Of the City Council
200 East Santa Clara Street
San José, CA 95113

Office Supply Purchases: The City Did Not Receive All Anticipated Discounts nor Did it Fully Take Advantage of OfficeMax's Environmentally Friendly Offerings

Since 2007-08, the City of San José has purchased office supplies on a citywide basis from OfficeMax through an open purchase order based on the America Saves national contract. Under the terms of the open purchase order, the City has a fixed price schedule for approximately 2,700 frequently purchased fixed-price items, and a discount off list pricing schedule for all other office supplies. The audit determined that there were very few minor price discrepancies on the fixed price schedule. However, due to a misunderstanding about the terms of the agreement for items without fixed prices, we found that the City had received an average 35 percent discount for some items, or about $166,000 less than anticipated for 2010-11. OfficeMax has agreed to pay the City $166,000 to correct the problem for 2010-11, and the City and OfficeMax have agreed to clarify the purchase order to conform to a new version of the America Saves contract which has more specific discount language than the previous agreement that is currently used.

In reviewing citywide office supply purchases, we also found numerous toner and paper purchases that were not in compliance with the City's Environmentally Preferable Procurement Policy, and cost the City at least $68,000 **more** than their environmentally preferable alternatives. The Finance Department has previously estimated that the City could save approximately $300,000 (much of the savings come through reduced purchasing of toners) by shifting the City's printing, copying, and faxing use from City-owned machines to the Ricoh copy-print-fax machines the City already rents.

Our report includes five recommendations to make it easier for City purchasers to save money while buying the most environmentally preferable office supplies available, and to divert much more of the City's printing to the City's leased copiers in order to reduce the City's carbon footprint and save money on toner and other printer expenses.

I will present this report at the January 26, 2012 meeting of the Public Safety, Finance, and Strategic Support Committee. We would like to thank the Finance Department Procurement Division, City Attorney's Office, and OfficeMax for their time and cooperation during the audit process. The Administration and OfficeMax have reviewed the information in this report and their responses are shown on the attached yellow pages.

Respectfully submitted,

Sharon W. Erickson
City Auditor

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Introduction

In accordance with the City Auditor's 2011-12 Audit Workplan, we have completed an audit of the City's Office Supply Purchases. The purpose of our audit was to determine if City purchasers are taking advantage of discounts available through the Office Supply Open Purchase Order (OPO) with OfficeMax and if OfficeMax has provided all the discounts stated in the OfficeMax contract.

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. We limited our work to those areas specified in the Audit Objective, Scope, and Methodology section of this report.

The Office of the City Auditor thanks the management and staff of the Finance Department, OfficeMax, and the Office of the City Attorney for their cooperation and assistance during our review.

Background

Since 2007-08, the City has purchased office supplies on a citywide basis from OfficeMax based on a cooperative procurement agreement with OfficeMax offered through Public Sourcing Solutions, a non-profit organization that has a partnership with Oakland County, Michigan, acting as the lead agency for the national cooperative procurement. This cooperative agreement is known as the America Saves Program. The City's Open Purchase Order adds customized discounts for the City onto the general America Saves Program. When the City last went out for a competitive bid on office supplies in the spring of 2008, three vendors offered bids: Corporate Express (now Staples), Office Depot, and OfficeMax.

The City chose OfficeMax because they were able to offer:

- competitive prices resulting in estimated cost savings of 20 percent or $200,000 annually as compared to the City's prior year purchasing habits
- expanded "green alternatives" offerings to approximately 17,517 "green" items
- payment using Procurement Cards
- improved reporting

- fixed pricing for 12 months on approximately 3,000 high use items (currently this list is 2,700 items)
- average discounts on all other items (*"fluctuating price items"*) of approximately 60 percent off the manufacturers' list price
- volume rebates of 3 percent of total sales for City
- volume rebates to the City of 2 percent of total sales for all public agencies that "piggyback" on the City's pricing agreement (currently, the cities of Milpitas, Mountain View, Sunnyvale, Novato, and San Ramon have piggybacked on the City's pricing agreement)

Basics of the Program

OfficeMax maintains a website specifically for the City of San Jose at officemaxsolutions.com. Users must request a username and password from the Purchasing Group in the Finance Department and must use a City Procurement Card (P-Card) to make any purchases. After users make purchases, the purchase information is routed to a departmental Approver to authorize the transaction.

There are two types of items available through the 2008 OfficeMax Open Purchase Order (OfficeMax contract) - fixed price and fluctuating price items. There are currently about 2,700 fixed price items available, which are items with guaranteed, fixed prices. These prices can only change with approval from the City's Purchasing Officer at least 60 days in advance of any change. Fixed price items account for about 60 percent of City purchases. The remaining 40 percent of purchases are for fluctuating price items. Fluctuating price items are discounted based on the type of item that they are. The OfficeMax contract includes an exhibit defining the discounts for fluctuating price items that lists 75 different types of items with discounts ranging from 4 to 86 percent off the manufacturers' list price. Items can be identified based on the first two letters and numbers of the item number. For example, items beginning with N4 are described as automatic pencils with a discount of 54 percent off list. The average of all these discounts is about 56 percent off.

Size of the Program

The City spends a little more than $1 million per year on office supplies through the OfficeMax contract. Employees purchased 80,000 items through the contract in FY 2010-11, with the bulk of the purchases going towards paper and toner to operate City-owned printers and copiers. Other highly purchased items include disposable tableware, batteries, and pens. Additionally, employees spent about another $18,000 on office supplies through other vendors including OfficeMax retail sites - where they did not receive the same OfficeMax contract discounts.

Roles and Responsibilities

The OfficeMax contract is managed by the Purchasing Section in the Finance Department (Purchasing). Finance-Purchasing is responsible for purchasing and providing products and services in a cost-effective manner. According to Finance, Purchasing Division staffing has dropped precipitously since 2008, from 16 full-time equivalent staff down to approximately 7.5 currently. As a result, Purchasing has implemented various acquisition paths to streamline the procurement process for frequently and widely used products and services such as Citywide Purchase Orders, Department Open Purchase Orders, and expansion of the Citywide Procurement Card Program.

Audit Scope and Methodology

The objectives of our audit of the City's office supply purchases were to determine if City purchasers were taking advantage of discounts available through the Office Supply contract with OfficeMax, and if OfficeMax had provided all the discounts stated in the contract. In order to address these objectives, we performed the following:

1. Interviewed City and OfficeMax staff involved with managing the contract to understand how the program works.

2. Used the audit analytic software Audit Command Language (ACL) and Microsoft Excel to conduct comprehensive, transaction-level review of OfficeMax's billing data for compliance with approved fixed price prices and discounts for Fiscal Year 2010-11.

3. Reviewed a sample of OfficeMax fiscal year 2010-11 purchases for compliance with the City's Environmentally Preferable Purchasing Policy. We limited the scope of this review to toners and the paper purchases categorized as P1 items, as those two item categories comprise more than half the total value of all OfficeMax purchases made in fiscal year 2010-11 ($520,000).

4. Reviewed p-card statements from January through June 2011 to determine how many purchases were made for office supplies outside of the OfficeMax contract.

5. Reviewed the OfficeMaxSolutions.com website to determine if improvements could be made to better direct users to the highest value and most environmentally friendly choices.

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Finding I The City Did Not Receive All Anticipated Office Supply Discounts

Summary

Due to a misunderstanding about the terms of the agreement, OfficeMax discounted fluctuating price items by about 35 percent in fiscal year 2010-11, not approximately 60 percent as the City expected, causing the City to lose $166,000 in discounts for the year. OfficeMax has agreed to pay the City $166,000 to correct the problem for 2010-11, and the City and OfficeMax have agreed to clarify the purchase order to conform to a new version of the America Saves contract which has more specific discount language than the current contract. In addition, the City and OfficeMax will be working to add a 'sort by price' feature when appropriate and clear indications of quantities for items to make it easier for City purchasers to make the best purchasing decisions. Furthermore, OfficeMax has offered to reimburse the City for some small pricing and billing errors that we found.

OfficeMax Discounted Fluctuating Price Items by About 35 Percent in Fiscal Year 2010-11

Approximately 42 percent of the purchases the City makes are for fluctuating price items where pricing is based on a percentage discount off list price. In fiscal year 2010-11 the City spent about $429,000 on about 4,200 different fluctuating price items. The most purchased items in this category included calendars, book repair tape, printer ribbons, and notebooks. When the City first signed on to the America Saves Program, the City's understanding was that they could expect to save approximately 60 percent off the manufacturer's list prices for fluctuating price items. However, the average discount the City actually received for such items in 2010-11 was 35 percent.

The America Saves Program does not provide a lot of direction on prices for OfficeMax fluctuating price items. Instead, this is left to the individual jurisdictions that sign on to the agreement and in the City's case, is attached to the contract as Exhibit B (attached). The City's OfficeMax contract language states that for fluctuating price items "pricing will be established by a discount off of the manufacturer's list price by item category per Exhibit B which is attached hereto and incorporated herein. The estimated average discount will be 60% off of the manufacturers' list price." Exhibit B category discounts range from 4 percent for Electronic Organizers and PDAs, to 86 percent for printer ribbons.

OfficeMax did not interpret the Exhibit B discount list the same way as the City and instead interpreted it as a list showing the maximum discount from list price for items in any given category. The City understood the list to show the actual

discount from list price that the City would receive on items in any given category. For example, calculators fall into the M1 category. The discount appearing in Exhibit B is 48 percent for M1 items. OfficeMax interpreted this as the maximum discount from list for calculators they would sell the City. The City understood this to mean that all the fluctuating price calculators for sale would be 48 percent off. However, OfficeMax's explanation that the Exhibit B discounts were the maximum they would provide does not always hold true. They exceeded the stated discounts for 150 of the 4,200 types of items sold in 2010-11.

When we applied the Exhibit B discounts as the City understood them to the actual purchases made in 2010-11, we found that the City spent more than it should have for fluctuating price items. When we applied the average 60 percent discount, we found the City spent at least $166,000 more than it should have. In other words, the City spent $428,000 on items that should have been discounted to $236,000 under the City's understanding of Exhibit B.

When we brought this to OfficeMax's attention in November 2011, they quickly acknowledged the misunderstanding and offered the City a lump-sum payment of $166,000 for the 2010-11 overpayments (detailed in their response letter attached to this report), which would bring the City's total discount received to 60 percent off manufacturers' list prices. The Finance Department plans to present the offer to the City Council in January 2012.

Additionally, OfficeMax requested that the City update the purchase order to use the new version of the America Saves contract which provides clear direction on discounts for fluctuating price items. If the City applied the new America Saves contract discounts to the City's 2010-11 purchases, the City would have saved an average of 38 percent of the manufacturers' list prices - more than the 35 percent the City received but less than the City's original intent of saving approximately 60 percent. However, the discount would likely improve if OfficeMax and the City update the fixed price list to include all of the City's highly purchased items.

Fixed price items are generally much more highly discounted than fluctuating price items. For instance, the recycled multipurpose copy paper that the City uses most of the time is 81 percent off list, the most highly purchased pens are 77 percent off, and the most highly purchased AA batteries are 86 percent off. The City's fixed price list includes about 2,700 items, but in 2010-11 only about 430 items were purchased at least 10 times. Additionally, there were more than 655 fluctuating price items purchased at least 10 times in 2010-11. If the fixed price list included the 1,085 items purchased at least 10 times in 2010-11, the City would likely save money.

Recommendation #1: We recommend that the Finance Department work with OfficeMax to periodically set fixed pricing on frequently purchased items.

OfficeMax Has Agreed to Enhance Its City Website

The OfficeMax Solutions website looks similar to the OfficeMax retail website and offers many of the same search features but is a little less user friendly and searchable. For example, the OfficeMax retail website and the OfficeMax Solutions website both allow users to browse for multi-purpose copy paper but the retail website allows users to refine their search by size, quantity, percentage of recycled material, brightness, and weight and also allows users to sort by price (low-high.) However, none of those options are available for City users who would have to scroll through all four pages of multi-purpose copy paper to ensure that they have made the best choice.

The City's OfficeMax website lists all items for sale with discounted pricing but does not provide City users with a way to sort items by price and does not always provide clear indications of quantities which can make it difficult for purchasers to make proper purchasing decisions. For example, Aspen brand 8½ x 11 100 percent recycled multipurpose copy paper was the most purchased item from OfficeMax in 2010-11 and should be the standard copy paper used by City staff (see Finding II for details.) However, if a city user browses through the OfficeMax website for multipurpose copy paper, one needs to scroll down to the 12th item on the page. This may be part of the reason why City employees bought so many varieties of 8½ x 11 multipurpose copy paper in 2010-11.

Sometimes this resulted in less than optimal spending. For example, City employees bought 17 cartons of OfficeMax brand 100 percent recycled 8½ x 11 multipurpose paper for an average of $87.05 per carton (10 reams per carton) in 2010-11. If purchasers had bought Aspen brand cartons instead, they could have bought each carton for to $40.53 and saved about $800. In another example, in 2010-11, purchasers bought nine cartons (there are ten reams or 5,000 pages in a carton) of Aspen brand 100 percent recycled 8-1/2 x 14 multipurpose paper at an average of $269 per carton - or almost $27 per ream. These are fluctuating price items and reams of this same paper could have been purchased less expensively as fixed price items for $5.44 per ream, which could have saved the City more than $1,930 in 2010-11 alone. If the OfficeMax website had a "cost per unit" feature on its website, City employees may have been better able to choose the less expensive paper.

For some items on the City's OfficeMax website, such as 8½ x 11 multipurpose copy paper, less is more in terms of purchasing choice. The Aspen brand 100 percent recycled paper is item 12 on the page if one browses through all the purchasing choices, which makes it pretty easy for purchasers to scroll past it if they scroll down that far at all. It also is just one of six different *fixed price* items available in the 8½ x 11 multipurpose copy paper category, which can make managing fixed price prices difficult.

Item Quantities Are Not Always Clear

Paper quantities are generally easy to determine because there are clear industry standards, but other item quantities can be more difficult to determine. For example, as of September 2011, OfficeMax was selling a "case" of Jazz design eight ounce Solo Trophy® Hot and Cold Cups for $170.54 but the total quantity of the case is nowhere on the OfficeMax webpage. In 2010-11, City employees purchased four "packs" of these cups for $9.75 each. Without quantity information it is impossible for a City employee to make a determination as to whether these are a good value or not. Not to mention that these are just one of the 324 types of "cups and glassware" items available through the OfficeMax website. An employee would need to review thirteen pages of "cups and glassware" to thoroughly determine that they had found the best value in disposable cups.

Some items without quantity information can be purchased on the retail officemax.com website as well, where one can find quantity information. Packs of Tablemate brand plastic plates are for sale on both websites but only the retail site specifies how many plates come in a pack.

On another note, the officemax.com retail website sometimes has better prices than what is available on the City's OfficeMax site. We discovered at least three instances where the Officemax.com retail website offers better pricing than the City's program. These include Aspen brand bright white 8½ x 11 copy paper which sold, (as of October 2011) for $17.29 per ream on the retail site and $27.03 through the City's website. The City purchased three reams of this paper in 2010-11. OfficeMax has proposed that employees could use the OfficeMax Retail Connect card when making purchases to ensure that City employees receive the lowest price available on products - whether that is the retail or America Saves price.

Recommendation #2: We recommend the Finance Department work with OfficeMax to enhance the website to encourage purchasing best value items in accordance with City policies.

Minor Billing Errors

Incorrect Fixed Price Item Pricing

We tested the prices charged for all of the City's fixed price purchases in 2010-11 and found that the City purchased eleven different items with pricing higher than the contract stipulates. This caused the City to spend approximately $455 more than it should have on fixed price items in 2010-11. This amounts to less than 1/100th of a percent of the total $511,000 spent on fixed price items in 2010-11.[1] Office Max has agreed to reimburse the City for the $455.

Billing Errors

We reviewed fluctuating price purchases for dubious discounts off list price and found at least one billing error. We discovered that the City spent $390 on six packs of Stalkmarket 7-inch paper plates that normally sell for $2.59 per pack. (Each pack contains 35 plates.) These plates cost the City $374 more than they should have. OfficeMax has agreed to reimburse the City for $374.

Some Items Were Not Properly Categorized

In addition to this problem, we found a small problem in that 36 fluctuating price items that the City purchased for a total of $4,900 were not included in any of the categories defined in Exhibit B. According to the contract, all items in the City's catalog need to be included in either the fixed price list or the fluctuating price Exhibit B list. Most of the items could have been categorized through Exhibit B but were not, mainly as Printer Supplies or Data/Media Storage. Some items appeared to actually be fixed price items with incorrect prices and item number identification.

Recommendation #3: We recommend the Finance Department accept the $829 refund for fixed price item errors and other billing errors from OfficeMax.

[1] Some items that the City purchased in 2010-11 were marked as fixed price purchases in the City's usage report but for various reasons we were unable to match them in our tests. There were a total of 177 items that could not be matched. In our sample of these items, we found a few different reasons why items may show up here. For example, some item numbers were transposed, some items were identified as fixed price items but really weren't, some item numbers were incorrect. For example zeros were put in the place of Os.

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Finding II The City Did Not Take Full Advantage of OfficeMax's Environmentally Friendly Options

Summary

The City of San Jose has had an Environmentally Preferable Procurement Policy in place since 2001 that City purchases should be made to:

- Purchase products which contain the highest percentage of post-consumer recovered material and the highest percentage of total recovered material available in the marketplace.
- Ensure that specifications and performance standards for goods and services do not require the use of products made from virgin materials nor specifically exclude the use of environmentally preferable products.
- Replace disposables with re-usable, recyclable, or compostable goods.

However, we found that about 50 percent of toner purchases and 8 percent of paper purchases were for items that did not meet the City's environmental standard. These purchases cost the City at least $68,000 **more** than their environmentally preferable alternatives. We recommend Finance-Purchasing and OfficeMax make it easier for City purchasers to save money while buying the most environmentally preferable office supplies available, and that staff should divert much more of the City's printing to the City's leased copiers in order to reduce the City's carbon footprint and save money on toner and other printer expenses.

The City Spent $152,000 on Original Toner Cartridges in Fiscal Year 2010-11

We found that in 2010-11, the City spent more than $250,000 through the OfficeMax contract on toner purchases for City-owned machines. As part of the Environmentally Preferable Procurement Policy, all toner purchases are required to be remanufactured toners, which cost, on average, about 40 percent less than original toner cartridges. Remanufactured toners also have about a 46 percent smaller carbon footprint than new, original cartridges, on average. Nonetheless, we found that 60 percent of the total spent on toner cartridges was spent on original cartridges - about $152,000 for 1,875 new cartridges.

There are a number of reasons people may choose to buy new rather than remanufactured cartridges, the main reason being that they do not believe the remanufactured toners work as well for their particular machines. The industry

and standards have evolved to produce recycled toner cartridges that are manufactured with high quality replacement parts and components that make them indistinguishable from original toner cartridges. In addition, recycled toner cartridges purchased from OfficeMax carry with them the guarantee that if damage is caused by the recycled toner cartridge OfficeMax will pay for the repairs or replace the printer if it cannot be fixed. Further, the use of a recycled toner cartridge not manufactured by the same company as was the printer will not affect the viability of the machine's warranty, per federal law.

If the City had purchased only remanufactured toner cartridges instead, it could have saved approximately $58,000 in fiscal year 2010-11 and about 3,100 lbs of carbon dioxide emissions - about as much carbon dioxide as average American passenger car emits over the course of nine months.

Purchasing remanufactured toner instead of original cartridges is a step in the right direction for the City but in order to reduce costs and energy inputs even further, the City should continue to cull the number of City-owned machines being used by City departments down to only those where true necessity can be shown. In 2007, the City entered into a contract with Ricoh to rent Multi-Functioning Devices (MFDs) to the City that provide copying, network printing, scanning, emailing, and faxing capabilities (toner is included in the rental cost). The City entered into this agreement as an alternative to managing hundreds of its own machines plus four smaller rental contracts for machines in various departments throughout the City. The City anticipated that moving from four contracts to one would save about $939,000 in the first three years alone. They also were able to add stringent new environmental standards. Ricoh is required to meet the City's Environmentally Preferable Procurement Policy standards including:

- Requirements for low energy usage
- International Organization for Standardization Environmental Standards (14001)
- Use of recycled content in the manufacture of the equipment, supplies and packaging
- Machines capable of using 100 percent recycled paper, and
- Overall paper reduction through two-sided copying, emailing, and scanning capabilities.

The City rents about 300 of these Ricoh machines throughout the City for a total of approximately $535,000 per year. The rental agreements include the cost of maintenance and toner for the machines. It has been a City goal to significantly reduce the number of additional City-owned machines that provide the same capabilities as the Ricoh machines, yet, there are still hundreds of stand alone printers, copiers, scanners and faxes Citywide.

The Finance Department recently estimated that the average cost per printed page for City-owned machines is approximately $0.10 per page compared to less than $0.01 per page using the Ricoh machines. In 2010, the Finance Department removed thirteen printers and fax machines from its department to analyze the savings associated with exclusively using Ricoh machines. The test went well and as a result, the Finance Department expects to save about $10,000 annually. If extended to the entire City, the Finance Department estimates that the City may save about $300,000 in all funds annually. The City would also see a significant reduction in energy consumption and carbon emissions with the phase-out of older printers and fax machines.

Recommendation #4: We recommend that the City Manager aggressively seek to phase out City-owned printers, scanners and faxes and divert those needs to the Ricoh machines.

The City Could Have Saved $10,800 in 2010-11 by Purchasing Copy Paper with Higher Recycled Content

The OfficeMax Solutions website offers an array of copy papers from 100 percent recycled to 100 percent virgin content. As we understand the City's Environmentally Preferable Procurement Policy, purchasers should make a point to buy the *most* recycled content products available - especially if prices are competitive with or less than similar less-recycled products.

Exhibit 1: Cost Per Ream Comparison of Multipurpose 8½ x 11 Copy Paper (Acid Free, 20lb Weight, 92 Brightness) Available on the City's OfficeMax Website

Item	Cost Per Ream	Fixed price Item	Percent Recycled
SouthCoast Paper Diverse Earth 30% Recycled	$16.27	no	30%
SouthCoast Paper Diverse Earth	15.49	no	0
Aspen 30% Recycled	13.43	no	30
Aspen 50% Recycled	13.17	no	50
OfficeMax Recycled Copy Paper	12.89	no	30
OfficeMax Xerographic	12.36	no	0
OfficeMax 50% Recycled	12.19	no	50
Hammermill Copy Plus	11.85	no	0
HP Office Paper	10.58	no	0
Aspen 100	**4.17**	**yes**	**100**
Xerox Business 4200	3.99	yes	0
X-9 Multi-Use	3.74	yes	0

We found that despite the directive to purchase the paper with the most recycled content, purchasers are still buying less-recycled paper - sometimes for more money than the cost of 100 percent recycled paper. About 8 percent, or 1,790, paper purchases were for less environmentally friendly paper when more recycled options at similar or cheaper prices were available. This added up to about $29,000 of the $268,000 spent on items classified as "paper" in FY 2010-11. This does not include many paper items like notebooks, envelopes or note cards. As an example, purchasers bought 1,300 reams of virgin or less-recycled 8½ x 11 multipurpose paper for a total of almost $16,000. If they had instead purchased the 100 percent recycled paper that is also available they could have saved 54 trees and $10,800 - almost 70 percent less than they paid.

OfficeMax Can Add Website Features to Improve Environmentally Purchasing

After bringing the out-of-compliance toner and paper purchases to OfficeMax's attention, the City's OfficeMax representatives have suggested some website enhancements that would restrict or downplay less environmentally friendly items on their website that would result in increased savings and environmental purchasing. OfficeMax anticipates that these features could be available for City users in early 2012.

Recommendation #5: We recommend that the Finance Department work with OfficeMax to introduce website enhancements that increase environmentally friendly purchases, especially for toner and paper products.

Conclusion

Since 2007-08, the City has purchased office supplies on a citywide basis from OfficeMax through an open purchase order based on the America Saves national contract. In general, OfficeMax has complied with the terms of the agreement. However, we found that OfficeMax's understanding of the discounts to apply to some items did not agree with the City's understand or intent. This caused the City to spend approximately $166,000 more than anticipated on office supplies in 2010-11. When we brought this to OfficeMax's attention, they agreed to pay the City $166,000 to correct the problem for 2010-11 and recommended switching to the new version of the America Saves contract which has more specific discount language than the version we currently use.

We also found that the City does not always comply with the Environmentally Preferable Procurement Policy, especially with toner and paper purchases, which cost the City at least $68,000 more than environmentally preferable toners in 2010-11. Furthermore, the Finance Department has estimated that the City could save approximately $300,000 (much of the savings coming through reduced purchasing of toners) by shifting the City's printing, copying, and faxing use to the Ricoh machines the City already rents.

RECOMMENDATIONS

Recommendation #1: We recommend that the Finance Department work with OfficeMax to periodically set fixed pricing on frequently purchased items.

Recommendation #2: We recommend the Finance Department work with OfficeMax to enhance the website to encourage purchasing best value items in accordance with City policies.

Recommendation #3: We recommend the Finance Department accept the $829 refund for fixed price item errors and other billing errors from OfficeMax.

Recommendation #4: We recommend that the City Manager aggressively seek to phase out City-owned printers, scanners and faxes and divert those needs to the Ricoh machines.

Recommendation #5: We recommend that the Finance Department work with OfficeMax to introduce website enhancements that increase environmentally friendly purchases, especially for toner and paper products.

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Exhibit B

Merchandise Class	Merchandise Class Description	Range with Max DFL
A1	ADHESIVES,CEMENTS,GLUE	66.00%
A2	SELF-ADHESIVE NOTES,TAPE FLAGS	50.00%
A3	SIGNS	12.00%
A4	COIN BOXES, BANKING SUPPLIES	48.00%
A5	LABELS,LABELMAKERS,TAGS,BADGES	63.00%
A6	RUBBERBANDS	81.00%
A7	LUNCHROOM SUPPLIES, FOOD	51.00%
A8	TAPES, DISPENSERS	70.00%
A9	CORRECTION FLUID,RUBBER FINGER	75.00%
B1	CALENDARS - DATED	66.00%
B2	CALENDARS - NON DATED	48.00%
B3	CALENDARS - ORGANIZERS	48.00%
B4	CALENDARS - ACADEMIC	53.00%
B5	REFERENCE BOOKS & DICTIONARIES	32.00%
E4	SEATING	48.00%
E5	STORAGE,SHELVING,BOOKCASES	39.00%
E6	ERGONOMIC ACCESSORIES	52.00%
E7	MAILROOM FURNITURE, LIT RACKS	33.00%
E8	CONFERENCE & TRAINING ROOM	48.00%
E9	FURNITURE ACCESSORIES	48.00%
F1	FILE FOLDERS (TOP TAB)	76.00%
F2	FILING GUIDES, FILING SORTERS	64.00%
F3	INDEX CARDS, PRINTABLE CARDS	71.00%
F4	BUSINESS CARD FILES,ADDRESS BK	42.00%
F5	HANGING FOLDERS,FILE ORGANIZER	81.00%
F7	BOX/ARCH FILES, CLIPBOARDS	57.00%
F8	FILE FOLDERS (END TAB)	58.00%
G8	ATTACHES,PORTFOLIOS,CASES	48.00%
H1	STAPLERS,STAPLES,TACKERS	80.00%
H2	PUNCHES	71.00%
H3	SCISSORS,XACTO KNIVES,LTR OPNR	84.00%
H4	CLIPS,CLAMPS,TACKS,FASTENERS	68.00%
J1	DRAFTING,ART SUPPLIES, RULERS	53.00%
J4	BOARDS, EASELS	42.00%
K1	DESK PADS, MOTIVATIONAL ITEMS	50.00%
K3	DESK ACCESSORIES, KEY CONTROL	65.00%
K4	LAMPS	48.00%
K5	CLOCKS	61.00%
K6	WASTE BINS,LINERS	70.00%
K7	SHREDDERS	45.00%
L1	PRESENTATION PRODUCTS	61.00%
L2	BINDRS,REPORT COV, LAMINATING	70.00%

Merchandise Class	Merchandise Class Description	Range with Max DFL
L3	INDEXES AND TABS	81.00%
L5	CATALOG/REFERENCE RACKS	36.00%
L6	DATA BINDERS & SUPPLIES	74.00%
L8	TELEPHONE & ACCESSORIES	68.00%
L9	BATTERIES	45.00%
M1	CALCULATORS	48.00%
M2	TYPEWRITERS & WORD PROCESSORS	41.00%
M3	FAX & MULTIFUNCTION MACHINES	38.00%
M5	AIRCLEANERS,FANS,HEATERS	48.00%
M6	DICTATION, RECORDERS, FILM	47.00%
M8	ELECTRONIC ORGANIZERS, & PDA'S	4.00%
N1	BALLPOINT,ROLLING,STYLUS PENS	68.00%
N2	MARKERS, HIGHLIGHTERS	64.00%
N3	PENCIL SHARPENERS	48.00%
N4	PENCILS-AUTOMATIC	54.00%
N5	PENCILS-WOODCASE	68.00%
N6	ERASERS-PENCIL & CHALKBOARD	48.00%
P1	PAPER, COPY, LASER, INKJET	80.00%
P2	ENVELOPES	66.00%
P3	PADS,NOTEBOOKS,FORM,ACCT BKS	80.00%
P4	ADD,CALCULATOR,FAX PPR ROLLS	79.00%
P5	STORAGE BOXES	61.00%
P6	COMPUTER PAPER	69.00%
P7	SHIPPING & MAILROOM SUPPLIES	48.00%
P8	WIDE FORMAT PAPER	48.00%
Q8	PRINTERS & SCANNERS	37.00%
R1	STAMPS,DATERS,NUMBER MACH	48.00%
R2	STAMP PADS, RACKS, INKS	53.00%
S1	PRINTER SUPPLIES	65.00%
S2	RIBBONS	86.00%
S5	COPIER & FAX SUPPLIES	49.00%
S6	COMPUTER ACCESSORIES	48.00%
S7	DISKETTES, DATA MEDIA/STORAGE	51.00%
S9	SURGE, MICE, KEYBOARDS	72.00%
W1	CUTTING BOARD,CTN OPENERS	48.00%
W3	MAINTENANCE SUPPLIES,FIRST AID	52.00%
W5	RESTROOM SUPPLIES	30.00%

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: Sharon Erickson
City Auditor

FROM: Julia H. Cooper

SUBJECT: **RESPONSE TO THE AUDIT OF OFFICE SUPPLY PURCHASES**

DATE: January 19, 2012

Approved

Date 1/19/12

The Administration has reviewed the Audit of Office Supply Purchases and is in general agreement with the findings and recommendations identified in the report as listed below:

Recommendation #1: Agree – The Finance Department work with OfficeMax to periodically set fixed pricing on frequently purchased items.

Recommendation #2: Agree – The Finance Department will work with OfficeMax to enhance the website to encourage purchasing best value items in accordance with City policies.

Recommendation #3: Agree – The Finance Department accepts the $829 refund for fixed price item errors and other billing errors from OfficeMax.

Recommendation #4: Agree – The Finance Department in coordination with the City Manager's Office will work to phase out City-owned printers, scanners and faxes and divert those needs to the Ricoh machines. IT will develop criteria and priorities for phase-out to ensure that specific situations can be addressed, such as transition costs from existing equipment, print volume, confidentiality requirements, and the variety of City work environments.

Recommendation #5: Agree – The Finance Department will work with OfficeMax to introduce website enhancements that increase environmentally friendly purchases, especially for toner and paper products.

The Finance Department would like to thank the City Auditor for completing this audit.

JULIA H. COOPER
Acting Director of Finance

For additional information on this report, contact Mark Giovannetti, Purchasing Division Manager at 408-535-7052.

OfficeMax

1315 O'Brien Drive
Menlo Park, CA 94025

January 5th, 2011

Mark Giovannetti
City of San Jose
Finance Department
200 East Santa Clara Street
San Jose, CA 95113

Dear Mark:

In response to your request to respond to the audit findings for the period covered of 7/1/10 through 6/30/11, OfficeMax would like to address the issues, describe our intent and define our position for the related matters as we understand them.

The P.O. dated 12/4/2008, #OP42616, was received and accepted by OfficeMax as an agreement by the City to purchase from OfficeMax as a participant under our National Co-operative America Saves Supply contract, or Master Agreement. This is a publically bid contract that was awarded to OfficeMax in May, 2006 and ended on 6/30/2011.

The Master Agreement itself can be described in terms of having three benefits to the City.

1) **Core Items** – 350 common items were heavily discounted under the America Saves program where each local government customer that adopts the program can receive this pricing. In addition, for the City of San Jose, we discounted over 2500 additional items at deep discounts as these were defined as the City's 'high use' items. The majority of contract purchases are driven to this group of core items.

   We understand that in your audit that there were only a few minor issues with pricing on 'core items' totaling $829.

2) **Rebates** – In addition to rebates that are offered under the America Saves Master Agreement, we offered the City rebates on sales to local agencies that adopted the 'core item' pricing. Since the P.O. was written through 6/30/11, the City has received $24,000 in rebates as the lead agency.

3) **Non-Core Pricing** – All items outside of the 'core items' group receive discounts from the manufacturers' suggested list prices. We describe this as 'non-core' pricing. During the audit period in question, the America Saves Master Agreement provided for discounts on these items of up to 85% off manufacturers suggested list prices.

   In an effort to try and define how the pricing for non-core products was determined under the America Saves Master Agreement, a table was produced and given to the City showing the 'Maximum' discount by 80 different merchandise class categories. The table is labeled, 'Range, Max Discount'. The intent was to show the maximum discounts at the time the P.O. was issued, but not change how the 'non-core' products under the Master Agreement were priced. All local government customers that are tied to the America Saves Master Agreement receive the same discounts and pricing for 'non-core' pricing.

Also, it's stated in the P.O., that the *estimated* average discount will be 60% off the manufacturers' price list. Please note, this was an estimate only of the general mix of non-core products under the America Saves Master Agreement. Since 2008, the City changed its purchasing patterns by adding many different types of products to their spend mix including toner products, which by industry standards carry lesser discounts than general office products.

As of 7/1/2011, a new America Saves Master agreement has been put in place and it more clearly defines the exact percent to be applied against the merchandise classes and manufacturers suggested list prices, avoiding any confusion.

OfficeMax and the City of San Jose have maintained a partnership for many years and we want to continue that relationship and also help the City reach all defined goals, including efforts to increase the amount of purchases in 'sustainable, green' products. We have many tools within our website to help the City reach these goals.

In an effort of goodwill to clear up any misunderstandings in how the P.O. was interpreted and issues coming from the City audit, OfficeMax would like to offer a one-time payment of $166,000 to cover the non-core item discrepancies. By adding in the one-time incentive, OfficeMax estimates this increases the discount from list percentage on 'non-core' products to 60% for the audit period.

The total check offered is $166,829 when adding in the $829 core item discrepancy noted.

For the various points mentioned earlier, we feel this offers restitution for the misunderstanding.

Sincerely,

Linda Stephan
Vice President, OfficeMax Incorporated

Cc:
Sharon Winslow Erickson – City Auditor, City of San Jose
Mike Ramseck, Sales Manager, OfficeMax
OfficeMax Legal Counsel