



Office of the Auditor General

**Audit of Specific Contracts and Processes in Fleet Services
Branch**

Tabled at Audit Committee – March 12, 2015

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Executive Summary

Introduction

The Audit of Specific Contracts and Processes within Fleet Services Branch was included in the 2013 Audit Plan of the Office of the Auditor General, approved by City Council on October 10, 2012.

Background

Fleet Services Ottawa (FSO) provides operating departments¹ with vehicles as well as vehicle maintenance. Currently, the fleet consists of approximately 2,300 vehicles and 750 units of various types (such as water trailers, tractors, etc.). To keep these vehicles operating, FSO maintains eight garage locations across the City ranging in size from one to thirty-six bays. Prior to this contract award, the Stores Operation maintained a parts inventory valued at approximately \$3.5 million managed by 28 stores personnel supporting approximately 85 technicians.

The City has competitively awarded two major contracts for fleet related goods and services:

1. On August 1, 2011, UAP Inc. (NAPA) was awarded a contract for the provision of automotive parts, exclusive of tires. The contract is valued at approximately \$39.7 million plus taxes for the initial five years. The On-Site Fleet Parts and Inventory Management Program Agreement allows for an additional forty-eight month extension of the Agreement.
2. On Feb 1, 2011, KAL Tire Inc. was awarded a standing offer for the provision of tires and related services, repairs, recaps and retreads. The agreement is valued at approximately \$2.4 million for a three year period.

Both contracts include an associated inventory management service for the City fleet.

The City is desirous of continually improving its procurement and inventory management methods and practices with a view to improving service and reducing costs where possible.

Audit Scope

The Audit focused on two individual areas of interest:

1. The complete life cycle of the NAPA and the KAL contract award processes and subsequent performance management of the delivery of goods and services in accordance with the contractual requirements; and,

¹ Operating Departments includes among others, Fire and Emergency Medical Services (EMS) and Police Services.

2. Opportunities for savings in the delivery of fleet related services provided by NAPA and KAL.
3. Additional items were addressed in management letters.

Summary of Key Findings

Parts and Inventory Management Program Agreement

NAPA was awarded a contract in accordance with pre-determined criteria in the RFP. A Fairness Commissioner was engaged throughout the process. Internal controls reasonably ensured a fair and open process during the contract evaluation and award. The average annual value of the parts issued is approximately \$6.9 million for the years 2012-2014.

The Corporate Efficiency Savings Program was presented to Council on November 10, 2009. Included in the omnibus submission was the Service Ottawa – Fleet Management Transformation Initiative², which projected annual operational efficiencies of \$3.94 million. These savings were expected to be realized by 2013. Improvements in client service were another significant element of the Initiative.

Fleet Services demonstrated that it achieved budget level savings of \$3.94 million annually as of 2013. Not all actual savings could be linked to the measures identified in the Service Ottawa – Fleet Management Transformation Initiative business case, the introduction of the NAPA contract, or the revised approach to the Efficiency Savings Program. With respect to the latter element, IBM Global Business Services provided the City with efficiency improvements through nine initiatives, based on business cases, in order to achieve the required targeted budgetary reductions.

We confirmed with Executive Committee attendees that, during its meeting of September 11, 2009, the Committee allowed Departments the flexibility to proactively adjust their budgets in order to achieve the required yearly targeted budgetary reduction allocations. Budgetary reductions could be based on the savings identified in the associated business cases and/or other areas in order to meet the overall targets.

This approach was not well documented in the records of decision available for the referenced meeting.

Reports to and discussions with Council in relation to the budget reductions reinforce the commitment to achieve the targets but could have been clearer in noting that the savings may not be based solely on the business cases.

In achieving its target reductions Fleet Services identified approximately 35% of the savings from items not identified in the initial business case. This indicates that there may be lessons learned to apply to any future broad based budget review exercises.

² Note to the reader: We found the name of the initiative changed frequently in the various documents provided by the City Staff. For the purposes of this report, we utilized the Project Charter title.

Our analysis noted an 11.8% increase in the cost of parts (including the fee payable to NAPA of 10%) and no demonstrable improvements of equipment downtime. The Service Ottawa – Fleet Management Transformation Initiative projected reduced parts costs of 3%, which would result in a 7% net increase once the 10% NAPA fee is included.

The City initially provided informal one-on-one training to the staff involved in the use of the Waiting for Parts (WFP) process. The WFP process was complex and was a source of some misunderstanding by employees. This led to an inconsistent application of this performance indicator. Cases of apparent contractual breaches by NAPA were disqualified because the process was not strictly adhered to. The WFP training was recently reinstated to correct any misunderstanding and feedback from employees has been positive.

Fleet Services' own analysis indicates that part delivery delays can be significant but under the current terms and conditions of the contract, there is no penalty for aging back orders.

As of November 2013, the Service Provider has incurred penalties for the months of May, June, and July 2012, as well as July, August and September 2013. The penalties amount to \$104,740 on part expenditures³.

It was noted during the audit that the provider, NAPA, occupies approximately 16,500 square feet of space at Swansea. This space is distinct from the space required by Fleet to meet its operational requirements at Swansea. In our discussions with Service Provider competitors, we were informed that the part delivery requirement could be met without utilizing City space. The City estimates it would need an additional 7,000 square feet to meet operational requirements if there were no vendor inventory on site. This would free up approximately 9,500 square feet of valuable space in the Swansea garage, which has a market value of approximately \$10-15 per square foot, or approximately \$100,000 based on information provided by City staff involved in leasing.

Opportunity for savings

In future contracts, the elimination of the requirement for the service provider for parts to be on-site has the potential to save approximately \$100,000 per year.

KAL Tire Contract

The current Standing Offer value is estimated at \$2.4 million for a three year period to provide all labour and materials for the provision of tire services, repairs, recaps, retreads and specialty tires not available through the National Accounts established with major tire providers. The tire inventory is not held on City property.

As a result of a legal challenge by an interested proponent during the procurement process, the RFP was re-issued on September 21, 2010. Two firms qualified and KAL

³ October 2011 to September 2013

was the successful proponent having the lowest price per point. No Fairness Monitor was involved on this procurement tender.

In our opinion, the contracting process was conducted in a fair and open manner. Internal controls reasonably ensured a fair and open process during the contract evaluation and the KAL contract was issued in accordance with pre-determined criteria established in the RFP.

Reliance is placed on KAL to select, stock, track and utilise used tires. Currently there is no data available for reporting on the status of the used tire inventory or on disposal of used tires. A significant portion of the used tire inventory is kept outside in conditions that negatively impact their condition and usability.

The Standing Offer has limited metrics to assist the City in assessing the vendor's performance; price list, 15 minute dispatch times, and 50 minute service call limits (110 minutes after hours). The contract does not provide for penalties in the case of non-performance.

The City lacks a method to collect performance related data to track supplier performance and must proceed on a case-by-case basis to flag concerns to KAL. To-date three default letters were sent to KAL.

A significant volume of tire service work goes to non-KAL vendors (29%; or \$425,000 of January to October 2013 expenditures of \$1.47 million) although there is no formal mechanism to allocate the work based on the results of the initial RFP.

Opportunity for savings

The City has for many years outsourced its roadside servicing related to tires and as such no savings were projected for workload savings. However, it did project that better overall "program management" would save money. As discussed in the text of this report, there is no data available to evaluate this position.

Recommendations and Management Responses

Recommendation 1

That the City ensure for the Fleet Management Transformation Initiative and any future reports to Committee and Council that include business cases, that staff clearly outline risks and options associated with the business cases. This should include a clear statement on how savings that are not aligned to the savings identified in the original business cases will be reported to Council.

Management Response

Management agrees with this recommendation.

In keeping with recently approved policies respecting Business Cases and Project Management, staff will provide more context including defining risks and options and clearly outlining how and when those will be communicated to Council.

A new Project Management Policy was approved by Executive Committee in December 2013 to ensure a common and consistent application of project

management principles and practices while limiting the risks associated with projects.

This policy is supplemented by a Project Management Framework, which further defines the City's project management approach to establish, manage and deliver projects at the City of Ottawa. The framework states that at a minimum, every project must be supported by a: Business Case; Project Charter; Project Plan; Mechanism to manage change; Status Report template and process; and, a Project Close-out Report.

Conditions for escalation of project decisions are to be described in the Project Charter.

In accordance with the Escalation Guidelines that form part of the Project Management Framework, Project Variances, including variances that impact the costs (including projected savings) or scheduling of the initiative would be candidates for escalation depending on the size and significance of the project.

Projects with a cost greater than \$10 million, including the ServiceOttawa efficiency program, would be candidates for escalation based on the significance of the overall initiative. Management commits to reporting out such project variances to Committee and Council including any adjustments that may be required as part of the annual budget process.

Recommendation 2

That the City clearly documents any significant decisions made at EMC.

Management Response

Management agrees with this recommendation.

The September 11, 2009 meeting referenced in the audit was a full-day Service Excellence Priority-Setting Session involving members of Executive Committee and Senior Management Committee. One of the items on the agenda involved a high-level discussion regarding the Corporate Service Excellence Plan and the efficiency projects. Meeting results from these sessions are not detailed as they are only intended to reflect a summary of the day's discussion however, for future sessions of this nature decisions will be documented more thoroughly.

Recommendation 3

That the City ensure that (for future contracts entered into and for the option years covered by the NAPA contract if permitted under the existing contract) contractual key indicators are specific, measureable, achievable, realistic, and time-targeted. Key indicators should include an aging component to encourage the Service Provider to accelerate the part retrieval in order to minimize vehicle inoperability.

Management Response

Management agrees with this recommendation.

Fleet Services will ensure key performance indicators that are specific, measurable, achievable, realistic, and time-targeted are included in any new or extended contract for the provision of parts. A key performance indicator that measures aging backorders will be explored and included, if practical. This recommendation will be implemented in Q3 2016 when the initial NAPA contract expires.

Recommendation 4

That the City, as permitted under the contract, engage a third party expert to undertake a benchmark review of parts and services provided by NAPA to ensure the City is receiving fair market, best customer pricing to ensure savings are maximized.

Management Response

Management agrees with this recommendation.

Fleet Services will engage a third party expert to undertake a benchmark review of parts and services provided by NAPA to ensure the City is receiving fair market, best customer pricing to ensure savings are maximized by the end of Q4 2015.

Recommendation 5

That the City substantiate the requirement to have the automotive parts Service Provider on-site to meet the needs of the City's Fleet Services.

Management Response

Management agrees with this recommendation.

The Request for Proposal for the On-site Fleet Parts and Inventory Management Program, RFP No. 18710-95841-P01, set out that the Service Provider would use the City's existing parts management space at 2799 Swansea as part of the terms of the agreement. The agreement was then entered into on this basis. Although not all functions the service provider undertakes need to be housed at Swansea, there is a contractual requirement to provide the service provider with space. Fleet Services will review the option to have the service provider undertake more services or materials storage remotely in any extensions to the existing contract or as part of future Requests for Proposals.

It is noted that the space within the Swansea Garage is occupied by personnel and equipment from a number of Public Works Branches as well as other City departments. The current space in use by NAPA, who service the City's operations, is situated within the complex with no dedicated exterior exit or defining walls, which would make it difficult to put this space on the market.

The City conducted a Facility Rationalization Study in 2006, which outlined the need for additional covered space for seasonal storage of Public Works equipment. Currently there are a number of pieces of expensive equipment that are exposed to

the elements. As part of its updated space review, Public Works will assess if the 9,500 square feet of space should be used for seasonal storage of equipment.

The Public Works Department will conduct a space review by Q1 2016 in order to ensure that Parks, Buildings and Grounds Services staff will have enough time to gather the appropriate information on the need for City-wide covered storage space at all of the Public Works yards, which will include Swansea location.

Recommendation 6

That Fleet Services develop the means to track and monitor vehicle unavailability (due to the Service Provider's inability to deliver the necessary parts in a timely fashion) in order to optimize fleet availability.

Management Response

Management agrees with this recommendation. Fleet Services will develop the means to track and monitor vehicle unavailability due to waiting for parts in order to optimize fleet availability by the end of Q3 2015.

Recommendation 7

That the City reconsider several aspects of its upcoming Standing Offer Request for Proposal for the provision of tires and related services including;

- **Reassessing the point distribution for award to further emphasize service over reporting capabilities.**
- **Establishing meaningful and measurable KPIs, such as:**
- **Time to Dispatch;**
- **Time to site to service vehicle; and,**
- **Time to complete work (through negotiation, agreed upon standards can be established).**
- **Making it mandatory for the proponent to use a handheld device to record service milestones noted above, or an acceptable alternative.**
- **Penalties for non-compliance which increase the longer they are unaddressed (i.e., the longer the vehicle is not operational the higher the penalty).**
- **Awarding standing offers to more than one supplier. This would provide the City with a systematic protocol for the allocation of work and approved vendor alternatives if the primary vendor cannot supply.**

Management Response

Management agrees with this recommendation.

The award structure for the most recent Tire Services Standing Offer was reworked to fully implement the auditor's recommendations:

- a) Service over reporting was achieved by ensuring reporting items necessary for the tracking of tire services and relevant KPIs were established as requirements in the Request for Standing Offer.
- b) Performance indicators used in the current Tire Services Standing Offer were chosen to be meaningful to the operation, and independently verifiable. Time to dispatch and time to arrive on site are reported in the weekly summary invoices provided to Fleet Services.
- c) Handheld devices are not commonly used in the tire services industry, instead service call data is provided on weekly invoices – as this data can be verified against Fleet Management Information System work orders, this was deemed an acceptable alternative.
- d) Performance and invoicing issues that may crop up will be addressed in cooperation with Supply Branch through the non-performance clauses in the standing offer. A committee consisting of Fleet, Supply and critical clients came to consensus that liquidated damages would be less effective than directly penalizing the vendor by giving the business to their competitor. The new standing offer is based on lowest responsive offer per price schedule basis, per geographical area. The Tire Services Standing Offer has been changed to an eligibility list structure (for each geographical area) to address supply and non-compliance concerns.
- e) The standing offer was awarded to more than one vendor. More specifically, the standing offer now divides the city into two (2) geographical areas (East and West) and it calls for a service provider in each of these areas. In the event the primary provider cannot supply, the City moves to the second provider on the list.

Recommendation 8

That the City establish practices to better monitor and control all aspects of the tire program, including;

- a) **The retention process and used tire inventory, and the value it is receiving through disposal of good but unwanted units.**
- b) **Assessing the condition of the tires before they are scrapped / removed by the supplier.**
- c) **Reviewing controls around the process to ensure only eligible expenditures are paid to the service provider.**

Management Response

Management agrees with this recommendation.

The most recent standing offer is supported by documented guidelines to fully implement the auditor's recommendations. Tire storage and disposal guidelines have been published and distributed to our Tire Services providers to better control the disposal of used and/or damaged tires. Additionally, as part of the basis of award for the Tire Services Standing Offer, a fixed credit was assigned to surplus casings. This ensures the City receives fair market value for surplus heavy truck casings.

- a) Used tire inventory is tracked through up-to-date inventory reports provided by the Tire Services providers, available on request. This data is monitored, and utilized by Fleet Services staff to ensure the disposal value received is appropriate.
- b) Scrapping of tires is controlled through the storage and disposal guidelines, and any large scale disposal of tires is monitored by Fleet Services staff.
- c) Additional financial controls have been put in place, with call back requirements for Tire Services providers upon completion of work or change to estimate, and payment conditions are more stringently enforced by Fleet Services staff.

Identified Savings

We have identified the following savings:

In future contracts, the elimination of the requirement for the service provider to maintain parts on-site has the potential to save approximately \$100,000 per year.

The City has for many years outsourced its roadside servicing related to tires and as such no savings were projected for workload savings. However, it did project that better overall "program management" would save money. As discussed in the text of this report, there is no data available to evaluate this position.

Conclusion

The contracting process used for both the NAPA contract and the Standing Offer Agreement with KAL adhered to existing policy and procedure, including the application of pre-determined criteria for vendor selection, which reasonably ensured a fair and open process.

Penalties are being collected from NAPA in accordance with the established performance indicators. However, the established performance indicators do not provide for the aging of parts orders that are unfilled.

The Agreement with KAL lacks sufficient performance indicators, and the City lacks the means to collect the information to monitor performance against these. The City needs to develop meaningful performance indicators and the tools to collect the data to manage service delivery.

Acknowledgement

We wish to express our appreciation for the cooperation and assistance afforded the audit team by management.

The following section is the detailed audit report.

1.1 Detailed Audit Report

1.1.1 Introduction

The Audit of Specific Contracts and Processes within Fleet Services Branch was included in the 2013 Audit Plan of the Office of the Auditor General, approved by City Council on October 10, 2012.

1.1.2 Background

Fleet Services Ottawa (FSO) provides operating departments⁴ with vehicles as well as vehicle maintenance. Currently, the fleet consists of approximately 2,300 vehicles and 750 units of various types (such as water trailers, tractors, etc.). To keep these vehicles operating, FSO maintains eight garage locations across the City ranging in size from one to thirty-six bays. Prior to this contract award, the Stores Operation maintained a parts inventory valued at approximately \$3.5 million managed by 28 stores personnel supporting approximately 85 technicians.

The City has competitively awarded two major contracts for fleet related goods and services:

1. On August 1, 2011, UAP Inc. (NAPA) was awarded a contract for the provision of automotive parts, exclusive of tires. The contract is valued at approximately \$39.7 million plus taxes for the initial five years. The On-Site Fleet Parts and Inventory Management Program Agreement allows for an additional forty-eight month extension of the Agreement.
2. On February 1, 2011, KAL Tire Inc. was awarded a standing offer for the provision of tires and related services, repairs, recaps and retreads. The agreement is valued at approximately \$2.4 million for a three year period.

Both contracts include an associated inventory fleet management service for the City.

The City is desirous of continually improving its procurement and inventory management methods and practices with a view to improving service and reducing costs where possible.

1.1.3 Audit Objectives

The audit objectives of the two above-noted contracts in the area of contracting and inventory related practices are:

1. Assess whether the City's contracting and inventory management control frameworks are adequate and functioning as intended;

⁴ Operating Departments includes among others, Fire and Emergency Medical Services (EMS), but Police Services are excluded

2. Determine whether the contract management practices utilized by City Staff ensure that NAPA and KAL services are delivered in accordance with the terms and conditions of the agreements in place, that the City obtains value-for-money, and that the City obtains the savings projected; and,
3. Determine whether there are additional opportunities for savings in the delivery of fleet related services provided by NAPA and KAL or subsequent service providers.

1.1.4 Scope

The Audit focused on two individual areas of interest:

1. The NAPA Automotive Parts Supply Contract; and,
2. The KAL Tire Supply Contract.

The scope of the audit included:

- The complete life cycle of the NAPA and the KAL contract award processes and subsequent performance management of the delivery of goods and services against the contracts; and,
- Opportunities for savings in the delivery of fleet related services provided by NAPA and KAL.

1.1.5 Audit Criteria

The criteria for the audit were developed to address the highest risks identified during our preliminary assessment of the procurement activities of concern. They address the effectiveness and adequacy of the key management controls that should be in place in any organization to enable the achievement of their procurement objectives over price, value, and performance.

1.1.5.1 Audit Objective #1

Assess whether the City's contracting and inventory management control frameworks are adequate and functioning as intended.

Criteria:

- Determine if policies, procedures and or guidelines are in place; are adequate; and, are being used as intended.
- Determine if internal controls reasonably ensure a fair and open process in contract award. Determine if the NAPA and KAL contracts were issued in accordance with pre-determined criteria by independent evaluators.

1.1.5.2 Audit Objective #2

Determine whether the contract management practices utilized by City staff ensure that NAPA and KAL services are delivered in accordance with the terms and conditions of the agreements in place, that the City obtains value-for-money, and that the City obtains the savings projected.

Criteria:

- Determine whether the performance indicators are appropriately calculated, tracked, reported, and penalties are recovered when applicable.
- Determine if the City has achieved workforce and workload reductions as a result of the implementation of the contracts as intended.
- Determine whether value and savings are being accrued appropriately, and that any associated cost savings for related automotive goods and services contracts (KAL and NAPA) are realized and reported.

1.1.5.3 Audit Objective #3

Determine whether there are additional opportunities for savings in the delivery of fleet related services provided by NAPA and KAL, or subsequent service providers.

Criteria:

Determine whether there are additional or amended services that could be provided at reduced costs in future contracts.

1.1.6 Audit Approach

We examined all relevant policy and interviewed key City employees involved in the ultimate success of the contracts and their processes. We examined the documentation related to issue the NAPA and KAL contracts. We conducted process walkthroughs of the associated processes with key staff and managers in order to validate the understanding of the process.

Additionally, we conducted detailed file review to gather sufficient and appropriate audit evidence, including analysis, to support findings and conclusions.

1.1.7 Observations and Findings

For clarity we are reporting our findings and recommendations into two distinct components. The two sections relate to the two major competitively awarded contracts for fleet related goods and services; NAPA, which provides automotive parts, exclusive of tires, and KAL Tire which provides the tire related services.

1.1.7.1 NAPA (UAP Inc.) Automotive Parts Supply Contract

The vehicle maintenance operation includes both planned and unplanned work. For planned work, the City provides the Parts Supplier with parts requirements in advance of the work, the Parts Supplier delivers parts to the appropriate City location in advance for the scheduled maintenance. For unplanned work, technicians identify the parts requirements specific to their work orders and expect to receive the parts from the Service Provider on an immediate availability basis.

The Fleet Services Department of the City of Ottawa issued a Letter of Interest⁵ (LOI) via MERX⁶ on August 25, 2010 to request interested potential Proponents to provide comments on a predetermined set of questions; which included questions on the Draft RFP attached to the LOI. The LOI was followed by a Request for Proposal⁷ (RFP) which was posted on MERX on January 12, 2011 to identify Proponents to supply the City with the On-Site Fleet Parts and Inventory Management services as described in the bid document.

The procurement was conducted in a two stage process: In the first stage, the Proponents' qualifications were assessed against mandatory and rated criteria as established in the RFP. Due to the implementation schedule and the need to mitigate risks in this area, a key requirement of the evaluation was that any parts supplier must have had previously successfully implemented an interface to M5⁸ to support the above requested services. Given the nature of the undertaking, we believe this was a reasonable requirement. Proponents receiving a passing grade based on the rated criteria were considered for the subsequent phase, the financial evaluation. Proponents were to be selected on a best value approach resulting from a combined technical and financial evaluation.

One bid was received.

The bidder submission was evaluated in accordance with established criteria in the RFP and received a passing grade. The City awarded the successful Proponent, UAP Inc. (NAPA) a contract valued at approximately \$39 million for a 5 year period. The On-Site Fleet Parts and Inventory Management Program Agreement allows for an additional forty-eight month extension of the Agreement. The contract includes the cost of parts as well as service delivery.

A Fairness Commissioner was engaged throughout the process.

In our opinion, the internal controls reasonably ensured a fair and open process in bid solicitation, contract evaluation and the NAPA contract was awarded and evaluated in accordance with pre-determined criteria.

1.1.7.1.1 Performance Indicators

The Service Provider, during the "Operational Services Phase⁹", was to furnish all parts required for the operation and maintenance of all vehicles and equipment maintained by the City with no less than an 85% in-stock, immediate availability, at all Facilities locations for all parts requested (i.e., "85% Part on Demand Rate").

⁵ LOI reference #18710-95849-EOI1

⁶ MERX (an electronic bidding system used by various levels of government) reference #206647

⁷ RFP reference #18710-95841-P01

⁸ The City uses the AssetWorks (M5) commercial off the shelf software package to manage and track information about the fleet maintenance functions, including work orders and costing

⁹ The Service Provider had 6 months from the first day of the Full-Services Phase to reach the 85% Part on Demand Rate.

Conceptually, NAPA should not be penalized if a City mechanic assigned to a particular work order is not rendered idle due to the unavailability of required parts. The measurement of time “waiting for parts” (i.e., WFP) begins when no more labour can be performed on the unit. Thus, the metric is designed to track downtime, not delivery efficiency. Moreover, it does not measure the time it takes to order or deliver parts, nor the length of time vehicles are out-of-service.

Furthermore, the metric could be skewed to the Service Provider’s advantage if work is performed after the work order has been “closed”; for example, time spent on the moving of vehicles. If the Work Order is coded ‘WFP’ because no work can be performed but ‘Labour’ is coded and charged to the Work Order simply to move the vehicle, the WFP penalty on that Work Order is disqualified.

The Part on Demand Rate success is measured on a monthly basis. A financial penalty is included in the contract to compensate for vehicle servicing that cannot be completed due to the unavailability of parts. For the purpose of determining the 85% part on demand rate, a part will be deemed “not available” when the mechanic, precluded from continuing work on the assigned vehicles, inserts a work delay code in the M5 work order. The City aggregates the infraction count on a monthly basis and financial penalties, if applicable, are calculated and applied to the service provider’s invoice.

1.1.7.1.2 Terms and Conditions in Place to Manage Performance

Under the current terms and conditions of the contract, there is little motivation or incentive for NAPA to accelerate the part retrieval process once they are penalized for being late. We suggest that the City consider implementing, during the next contractual negotiations, tiered penalties based on the “aging” and efficiency of part retrieval (in other words, penalties should significantly increase with the passage of time).

1.1.7.1.3 Available Information for Managing Performance

On August 1, 2011, UAP Inc. (NAPA) was awarded a contract for the provision of automotive parts, exclusive of tires. Management collected data, on a trial period basis, from November 2012 to January 2013 in order to categorize the delays in the provision of parts into meaningful categories. The categories included, for example, the percentage of parts delivered in less than one hour, the percentage of parts delivered between 1 and 4 hours, etc. Management informed us that while the information was useful, it was not applicable to penalties in the current contractual agreement and they did not continue to collect it due to resource constraints.

We believe this information to be important for establishing penalties for aging parts deliveries. Fleet Services’ own analysis indicates that these part delivery delays can be significant. Delays cause limitations in service delivery when key equipment such as a snow plow cannot be used. The collection of this aging of orders data could be used as the basis of further penalties/incentives to enhance service delivery.

During our interviews it quickly became apparent that there was a wide difference in the understanding of the rationale and objectives of the Service Ottawa – Fleet

Management Transformation among employees. Staff interviewed were often concerned about issues that they believed were grave shortcomings in the processes, yet, some were actually in accordance with the terms and conditions of the contract.

Some examples included:

- Contractor use of city equipment such as forklifts;
- Significant individual part price increases; and,
- Significant delays in receiving specific parts.

1.1.7.1.4 Training in Applying the Performance Indicator: Waiting for Parts (WFP)

Under the terms of the contract, the Service Provider is to furnish the parts required with no less than an 85% in-stock immediate availability. For the purpose of the metric, a part is deemed to be “unavailable” when the mechanic is precluded from continuing work, and inserts a work delay code in the M5 work order. The WFP process was complex and was a source of some misunderstanding by employees. This led to an inconsistent application of this performance indicator.

At the initial stages of the NAPA contract, the City provided informal and largely individualized (i.e., case-by-case basis) training to the staff involved in the use of the WFP process. While a “Waiting for Parts Technician Training” document was developed in the early stage of the start-up of the NAPA contract, no on-going training, seminar, workshop, or document update/revision has been undertaken.

A quality assurance review role is performed regularly to ensure all the WFP infractions are utilized in accordance with the contract. During this review, WFP are individually reviewed and disqualified if not appropriately applied.

The recording of a WFP needs to be done in a systematic fashion. It does not appear *that the technicians were fully versed in how to properly initiate or use the WFP* notification in M5. We observed cases of contractual breaches by NAPA being disqualified because the WFP process wasn’t strictly adhered to.

In our discussion with City representatives, we understand that in June 2013, the WFP training was reinstated and for the most part was delivered to small groups ranging from 6 to 11 staff consisting of technicians, working supervisors and PSC¹⁰ in a classroom setting. Feedback has been positive.

1.1.7.1.5 Parts Availability

Under the terms of the contract, required parts should be available for completion of the Work Orders on an “immediate availability” basis. The contract does not clearly quantify this performance measurement criterion, however for practical reasons it is generally

¹⁰ Purchasing Stores Clerks

understood to mean the delivery of the requested parts within a 30 minute¹¹ window. Regardless of the allotted time, retrieval of parts must be issued in such a fashion that 85% of the parts are supplied without the City mechanics/technicians experiencing a work stoppage.

We tested the speed of parts delivery in order to evaluate NAPA's performance in delivering the parts at the Swansea garage. It is our understanding that our testing was conducted during a slow time, in between seasons. As such, we expected a rapid turnaround. Over the span of five business days, we selected 100 items from a commonly used parts list and ten from the EMS essential parts list. We found that 62 items were delivered outside of a 60 minute window and only nine were delivered within a 30 minute window. Furthermore, eleven (11) of the items were stocked out even though the system indicated parts were on hand; two of these, spark plugs and alternators were related to the EMS vehicles.

While we cannot conclude on whether the 85% threshold would be met based on the WFP performance indicator methodology, we can say that the speed of retrieval has room for improvement. More importantly, however, is the fact that several items were stocked out when the system indicated otherwise. NAPA is responsible for appropriate inventory levels based on historical trending of demands.

1.1.7.1.6 Application of Penalties

To date, the Service Provider has incurred penalties for the month of May, June, and July 2012, as well as July, August, and September 2013 for a total of \$104,740. At the time of writing, the November 2013 penalty determination had not been finalized. We noted that penalties were not imposed on the Service Provider prior to May 2012, but after the contractual grace period, due to an inability (internally and between contractual parties) to agree on the appropriate application of the performance measurement criteria.

1.1.7.1.7 Fleet Management Transformation Savings Projected by Fleet Services

Staff and Parts Related Savings

As part of the Service Ottawa - Fleet Management Transformation, the organizational structure for the Fleet Services Branch was realigned in order to achieve identified annual operational efficiencies of \$3.94 million by 2013 and to improve client services in the areas of Fleet Maintenance (including Planning and Control), Fleet Life-Cycle Management, Materials Management, Operator/Driver Training and Fleet Safety.

¹¹ Source: Service Provider (NAPA) Contract Clause 3.11 "Supply of Required Parts for unplanned work" states "...the Service Provider shall furnish all parts required...on an 85% Part on Demand Rate.

This realigned structure was approved by the General Manager of the Public Works Department on October 31, 2011 and its objective was to result in savings of (1) \$600,000 in Inventory Labour Costs and (2) \$410,000 in Fleet Maintenance Labour Costs, for a total savings in labour of \$1.01 million. Other savings were to come from the following areas:

- A 3% reduction in cost of parts (\$180,000); and,
- An unquantified reduction in equipment downtime.

While Fleet reduced operational level positions by 15 FTE, it added six new management level positions.

Fleet Services demonstrated that it achieved budget level savings of \$3.94 million annually as of 2013. Not all actual savings could be linked to the measures identified in the Service Ottawa – Fleet Management Transformation Initiative business case, the introduction of the NAPA contract, or the revised approach to the Efficiency Savings Program. With respect to the latter element, IBM Global Business Services provided the City with efficiency improvements through nine initiatives, based on business cases, in order to achieve the required targeted budgetary reductions.

We confirmed with Executive Committee attendees that, during its meeting of September 11, 2009, the Committee allowed Departments the flexibility to proactively adjust their budgets in order to achieve the **required** yearly targeted budgetary reductions. Budgetary reductions could be based on the **savings** identified in the associated business cases and/or other areas in order to meet the overall targets.

This approach was not well documented in the records of decision available for the referenced meeting.

Reports to and discussions with Council in relation to the budget reductions reinforce the commitment to achieve the targets but could have been clearer in noting that the savings may not be based solely on the business cases.

In achieving its target reductions Fleet Services identified approximately 35% of the savings from items not identified in the initial business case. This indicates that there may be lessons learned to apply to any future broad based budget review exercises.

During the years 2011, 2012, and 2013, Fleet requested and received, in aggregate, \$1.5 million for “parts and commercial repair inflationary provisions”. During this same period, Fleet obtained through the budgetary process, approval for fleet growth of approximately 140 vehicles, or 5% of its fleet (based on a fleet size increase from 2,463 to 2,599 vehicles as provided by Fleet Services). The operating funding which was provided for the “growth in fleet” over the corresponding period covered eight additional FTEs, or an approximately 10% growth in the number of automotive technicians to manage growth.

Cost of Parts

Currently, the M5 System prevents price increases based on a part number in the M5 system from date of transfer / sale of inventory to NAPA (decreases however are accepted). A control is imbedded in the system to ensure an approval is obtained for

any increases in existing part prices and appears to be effective. New parts, however, are introduced into the inventory at the NAPA established, or offering price without pre-approval from the City.

During the course of the audit, the Program Manager Materials Management conducted an analysis to determine the extent of savings related to the cost of parts. As part of this analysis the City identified numerous parts for which it believed NAPA overcharged the City. This resulted in a \$56,000 reimbursement from NAPA for the first six months of the contract.

Notwithstanding the above noted exercise identifying an increase in parts through NAPA, the City has expressed that savings of 3% would be realized as a result from the NAPA contract. The parts cost savings were meant to be observed at a macro level with the understanding that some parts would be less costly, and others, more.

To validate these savings, we tested a statistically sound sample and observed an overall increase of 1.8% in the prices for the parts when comparing the City's price with NAPA's. We selected only parts for which we had relative assurance that we were comparing identical parts.

The methodology used by the City in their price comparison, was based on the whole population. There is no assurance that parts from the City's list have not been discontinued by NAPA or been replaced by another part with a similar description but different use or a different price.

Due to the lack of clarity in the City's and NAPA's databases, we believe there would be a benefit to an independent benchmarking analysis of the price variance, as set out in the contractual agreement. This would provide assurance that the City is obtaining fair market and best customer pricing, in order to maximize savings and obtain best value through the Agreement. Worthy of note is that any price savings expressed by the City, currently 3%, or alternatively the cost increase of 1.8% from our tests, excludes the 10% processing cost payable to NAPA. This increases the true cost to the City and erodes the expected savings.

Lower Equipment Downtime

In our discussion with the City representatives, we were informed that no evidence could be provided by Fleet Services to substantiate that the issuance of the NAPA contract has resulted in a lower amount of equipment downtime. We were advised that there is not presently, nor was there previously, any systematic collection of data related to equipment down time.

In order to ensure optimal fleet availability, there needs to be a means to monitor and explain downtime that exceeds the scheduled "out of service time". This would potentially provide a key indicator of protracted delays in parts provision and form the basis of a performance indicator eventually linked to penalties applied to the parts service provider.

1.1.7.1.8 Opportunity for savings

The Request for Proposals and the Agreement clearly spelled out that the successful proponent would have access to space within City facilities so long as it “would use no more space than is currently allocated within City facilities for parts warehousing”.

It was noted during the audit that the provider, NAPA, occupies approximately 16,500 square feet of space at Swansea. This space is distinct from the space required by Fleet to meet its operational requirements at Swansea. In our discussions with Service Provider competitors, we were informed that the part delivery requirement could be met without utilizing City space. The City estimates it would need an additional 7,000 square feet to meet operational requirements if there were no vendor inventory on site¹². This would free up approximately 9,500 square feet of valuable space in the Swansea garage, which has a market value of approximately \$10-15 per square foot, or approximately \$100,000 based on information provided by City staff involved in leasing.

The City should reconsider the need to have the Service Provider on-site to meet the needs of the City. This would free up valuable space in the Swansea garage.

1.1.7.1.9 Conclusion

The contract was awarded in accordance with existing policy and procedure, including the application of pre-determined criteria for vendor selection, which reasonably ensured a fair and open process for proposal evaluation and contract award. Penalties are being collected in accordance with the established performance indicators. The established performance indicators however, do not provide for the aging of parts orders that are unfilled.

Recommendation 1

That the City ensure for the Fleet Management Transformation Initiative and any future reports to Committee and Council that include business cases, that staff clearly outline risks and options associated with the business cases. This should include a clear statement on how savings that are not aligned to the savings identified in the original business cases will be reported to Council.

Management Response

Management agrees with this recommendation.

In keeping with recently approved policies respecting Business Cases and Project Management, staff will provide more context including defining risks and options and clearly outlining how and when those will be communicated to Council.

A new Project Management Policy was approved by Executive Committee in December 2013 to ensure a common and consistent application of project management principles and practices while limiting the risks associated with projects.

¹² This is an estimated notional requirement and has not been audited.

This policy is supplemented by a Project Management Framework, which further defines the City's project management approach to establish, manage and deliver projects at the City of Ottawa. The framework states that at a minimum, every project must be supported by a: Business Case; Project Charter; Project Plan; Mechanism to manage change; Status Report template and process; and, a Project Close-out Report.

Conditions for escalation of project decisions are to be described in the Project Charter.

In accordance with the Escalation Guidelines that form part of the Project Management Framework, Project Variances, including variances that impact the costs (including projected savings) or scheduling of the initiative would be candidates for escalation depending on the size and significance of the project.

Projects with a cost greater than \$10 million, including the ServiceOttawa efficiency program, would be candidates for escalation based on the significance of the overall initiative. Management commits to reporting out such project variances to Committee and Council including any adjustments that may be required as part of the annual budget process.

Recommendation 2

That the City clearly documents any significant decisions made at EMC.

Management Response

Management agrees with this recommendation.

The September 11, 2009 meeting referenced in the audit was a full-day Service Excellence Priority-Setting Session involving members of Executive Committee and Senior Management Committee. One of the items on the agenda involved a high-level discussion regarding the Corporate Service Excellence Plan and the efficiency projects. Meeting results from these sessions are not detailed as they are only intended to reflect a summary of the day's discussion however, for future sessions of this nature decisions will be documented more thoroughly.

Recommendation 3

That the City ensure that (for future contracts entered into and for the option years covered by the NAPA contract if permitted under the existing contract) contractual key indicators are specific, measureable, achievable, realistic, and time-targeted. Key indicators should include an aging component to encourage the Service Provider to accelerate the part retrieval in order to minimize vehicle inoperability.

Management Response

Management agrees with this recommendation.

Fleet Services will ensure key performance indicators that are specific, measurable, achievable, realistic, and time-targeted are included in any new or extended contract for the provision of parts. A key performance indicator that measures aging backorders will be explored and included, if practical. This recommendation will be implemented in Q3 2016 when the initial NAPA contract expires.

Recommendation 4

That the City, as permitted under the contract, engage a third party expert to undertake a benchmark review of parts and services provided by NAPA to ensure the City is receiving fair market, best customer pricing to ensure savings are maximized.

Management Response

Management agrees with this recommendation.

Fleet Services will engage a third party expert to undertake a benchmark review of parts and services provided by NAPA to ensure the City is receiving fair market, best customer pricing to ensure savings are maximized by the end of Q4 2015.

Recommendation 5

That the City substantiate the requirement to have the automotive parts Service Provider on-site to meet the needs of the City's Fleet Services.

Management Response

Management agrees with this recommendation.

The Request for Proposal for the On-site Fleet Parts and Inventory Management Program, RFP No. 18710-95841-P01, set out that the Service Provider would use the City's existing parts management space at 2799 Swansea as part of the terms of the agreement. The agreement was then entered into on this basis. Although not all functions the service provider undertakes need to be housed at Swansea, there is a contractual requirement to provide the service provider with space. Fleet Services will review the option to have the service provider undertake more services or materials storage remotely in any extensions to the existing contract or as part of future Requests for Proposals.

It is noted that the space within the Swansea Garage is occupied by personnel and equipment from a number of Public Works Branches as well as other City departments. The current space in use by NAPA, who service the City's operations, is situated within the complex with no dedicated exterior exit or defining walls, which would make it difficult to put this space on the market.

The City conducted a Facility Rationalization Study in 2006, which outlined the need for additional covered space for seasonal storage of Public Works equipment. Currently there are a number of pieces of expensive equipment that are exposed to the elements. As part of its updated space review, Public Works will assess if the 9,500 square feet of space should be used for seasonal storage of equipment.

The Public Works Department will conduct a space review by Q1 2016 in order to ensure that Parks, Buildings and Grounds Services staff will have enough time to gather the appropriate information on the need for City-wide covered storage space at all of the Public Works yards, which will include Swansea location.

Recommendation 6

That Fleet Services develop the means to track and monitor vehicle unavailability (due to the Service Provider's inability to deliver the necessary parts in a timely fashion) in order to optimize fleet availability.

Management Response

Management agrees with this recommendation. Fleet Services will develop the means to track and monitor vehicle unavailability due to waiting for parts in order to optimize fleet availability by the end of Q3 2015.

1.1.7.2 KAL Tire Services Supply Agreement

The Standing Offer value is estimated at \$2.4 million for a three year period to provide all labour and materials for the provision of tire services, repairs, recaps, retreads and specialty tires not available through the National Accounts established with major tire providers (see next page for details). It is worth noting that the Request for Proposal was originally issued with an estimated cost of \$800,000 over the three year period but was subsequently revised with an estimated cost of \$2.4 million over the three year period.

The initial Request for Standing Offer No. 18710-92882-S01 for Tire Services, Repairs, Retreads, Analysis, Inventory management and Supply of Specialty Tires was issued on or about March 30, 2010.

One of the bidders (not the eventual successful proponent) was informed on April 28, 2010 that their bid did not obtain a passing grade during the initial evaluation, and consequently, they would not be considered for selection. The bidder's lawyers challenged the points allocated for a section of the evaluation based on the ambiguity of the wording. The City accepted the proponent's complaint. However, the bid period had closed before this decision was finalized. As a result the City exercised its reserved right to cancel the solicitation and the RFSO was re-issued on September 21, 2010. Four bids were received and evaluated by staff from Fleet Services. The consensus meeting was held on December 10, 2010 and representatives from Supply Management were in attendance.

The Standing Offer was to be awarded based on a cost per point formula.

Two firms qualified, and KAL was the successful proponent having the lowest price per point.

Fairness Monitors were not involved on this procurement tender.

We reviewed the procurement award file and did not note any significant issues. Total available points awarded for reporting capabilities accounted for 25% of the total available points. The strength of the various bidders varied widely. During our interview we noted that the reports called for in the current Agreement are not being routinely requested, obtained or put to use by the City in the management of its tire program requirements. Service levels continue to be the primary objective. As such, the City should reconsider the point distribution in its upcoming Request for Proposals.

In our opinion, the contracting process was conducted in a fair and open process. Internal controls reasonably ensured a fair and open procurement process and KAL was issued a Standing Offer in accordance with pre-determined criteria.

1.1.7.2.1 National Account Purchases

Tires at the City of Ottawa are largely purchased via the National Accounts Standing Agreements in place. National Accounts dealing with the City are made up of:

- Goodyear / Dunlop / Kelly
- Michelin / BF Goodrich / Uniroyal
- Bridgestone / Firestone

The City, under the terms of the National Accounts, can purchase tires from any retailer, including KAL, and the retailer must honor the pricing of the National Accounts.

Some OEM tires are Goodyear (i.e., some police vehicles¹³). KAL is an authorized vendor of Michelin/BF Goodrich/Uniroyal and Bridgestone/Firestone, but not Goodyear Tires. It is our understanding however that few vendors are authorized dealers for all three National Account brands. This is not considered a problem in providing appropriate tires for any fleet vehicle.

1.1.7.2.2 Transactional Process

The Fleet Maintenance Service Coordinator is responsible to record the work requirement resulting from failure of some sort (flat tire, broken axle, defective a/c, etc...) from a City vehicle. When a call is received, the information is entered into a Work Order in M5.

- Work notes are included
- It is electronically time stamped

The vendor (KAL) is notified of the requirement. Work is then undertaken as requested. Upon receipt of invoice, a matching is undertaken of the M5 Work Order and the invoice to ensure service is being charged at the contractual rate. KAL is contacted for an

¹³ OPS have advised that they have no strong vendor preference providing the tires are pursuit rated.

explanation if the wrong rate is used. If necessary, corrective action is taken to ensure that only requested work is billed and paid for.

If work was not appropriately approved, the Municipal Fleet Commercial Repair Coordinator contacts KAL. Onus is then on KAL to demonstrate who approved the work. If KAL cannot provide necessary support, the charge is denied.

The City has implemented detection and preventative controls to ensure that only appropriately approved charges are paid. In situations where work is not undertaken as requested or not done on a timely basis, the price charged is not in accordance with the contract, or the work was simply not requested, a dispute resolution process exists to address the matter. In addition, weekly collaborative meetings are held with KAL to review items or recurring issues requiring resolution. Controls appear to be well designed and working effectively to ensure that only appropriate charges are settled with the vendor.

Once the Municipal Fleet Commercial Repair Coordinator is satisfied with the matching of work orders to Invoice, the information is electronically forwarded to the supervisor for approval and then on to the City's accounts payable for payment.

Overall, the internal controls surrounding the payable function appear to be effective and adequate.

A significant volume of tire service work is requested from non-KAL vendors. For the period of January to October 2013, 29% (i.e., \$425,000) of \$1.47 million has been awarded to non-KAL vendors. Currently work is allocated in the order of the score of the responses to the last RFSO although this was never stated in the procurement process or formally documented. This indicates a possible volume or capacity issue with the service provider and that there should have been a back-up service provider issued with a Standing Offer as well, or that the service area should have been split, perhaps along an East / West boundary as is done with other service related standing offers the City enters into.

1.1.7.2.3 Performance Metrics / Standards

The Standing Offer allows for a limited number of metrics to assist the City in assessing the vendor's performance:

- Price list
- 15 minute dispatch times
- 50 minute Service Call limits (110 minutes after hours)

Work orders are time stamped and can be evidenced on the KAL website. Work orders now include detailed notes in M5 to ensure time of issue and exact services needs are documented. Performance is difficult to track as the work orders includes the time

stamp of when the order is created, but dispatch time and arrival time of service provider (KAL) is not recorded on work orders or in M5.

The contract does not provide for penalties in the case of non-performance.

The City lacks a method to collect performance related data in a systematic fashion. For example, the dispatch time is provided by the vendor, thus not an objective source, and the Service Call Limits are difficult to measure given there is no tool in place other than to request City employees to call in the information about arrival and work completion times.

In order to effectively measure performance against KPIs, tools must be in place to collect the data. This could be accomplished through the use of hand held devices (similar to UPS or Purolator) or may be as basic as the manual signing of a multi copy slip at the service site documenting the time the service vehicle arrived on site and the time the service was completed.

We understand that most jobs are relatively standard (e.g., damaged tire due to flat, broken casing). This offers an opportunity to establish an agreed-upon KPI as it measures the length of time vehicles are non-operational.

Staff interviewed raised the issue of a performance indicator related to tire availability. As a large part of the fleet utilizes common size tires, the availability of known common size tires should be immediate. In our opinion this would be satisfactorily addressed with a metric introduced to measure time to complete a repair.

Per discussion with a former employee, the Manager, Fleet Maintenance, the theory is that preventative tire maintenance lowers unexpected service to the vehicles. Statistics on road side calls would demonstrate this. However, in discussion with Matt Knight, Section Manager, Fleet Planning and Control, we were informed that these statistics are not collected.

1.1.7.2.4 Tire matching, used tire inventory and tire scrapping

A revised draft City Tire Purchasing and Service Policy was issued September 26, 2013. We have been informed that this Policy has since been finalized and is currently in effect.

The City has adopted, for logical and/or safety reasons, a tire matching policy. This requires a matching set of tires (size, manufacturer, condition, and tread depth) across axle and/or all wheels. The matching needs to be within 3/32".

- 4x4: Need 4 way match
- 4x2: Need 2 way match (across axles)

Because of the tire matching objective, the replacement of useable tires may be required. The useable and undamaged tires removed are added to the used tire inventory held and managed by KAL. The used inventory is intended to assist the City to match tires with similar used tires to avoid buying all new tires across axles.

Used tires are also derived from Winter/Summer changeover.

Both KAL and the City indicated that the City cannot hold all used tires as inventory numbers would be unmanageable. KAL is to select and hold the better units for inventory purposes. To date, the storage capacity at KAL has not been reached.

A visit to KAL was made to review the inventory of used tires. We expected to see a significant stockpile given the number of vehicles in the fleet. Actual units on hand were limited. A list of used inventory was provided to the City, but we were advised by City staff that it was incomplete. However, the City does not currently have an accurate record of the used inventory held by KAL but is working diligently in controlling this aspect of the tire management process.

The Yokohama Technical Service Bulletin: Tire Storage, November 21, 2002 states:

- Tire treads and side walls are constructed from compounds that resist deterioration caused by sunlight, ozone, and extreme temperatures. Nevertheless, stored tires should be protected against these and other potentially damaging conditions. Store tires in an area that is clean, cool, dark, and well ventilated, but with a minimum of circulating air. Avoid areas that are wet, humid, oily, greasy, or in direct sunlight.
- Do not store tires directly on black asphalt or other heat-absorbent surfaces. Avoid storage adjacent to highly reflective surfaces.
- As a rule, tires should be stored in an upright position to prevent distortion or disfiguration and to make mounting work easier. If it is necessary to store tires in a horizontal position, be sure to stack passenger car and light truck radial tires no higher than one meter (3 feet), and radial truck tires no higher than one and one-half meters (4 1/2 feet).

Most of the tires observed were stored outside¹⁴, subject to extremes of temperature, direct sunlight, laid on asphalt in stacks which exceed the recommended maximum.

¹⁴ Picture taken from the KAL used inventory site for the City of Ottawa. Labels on the tires are used for internal identification and tracking purposes. New tires were not seen in this storage area.



Figure 1: Storage of used tire inventory at KAL site

Reliance is placed on KAL to stock, track, monitor, and supply the used tires. Currently there are no statistics or data available for reporting on used inventory (model, tread depth, tire size, and age) or on sales of used tires as part of disposal process or possible credits to the City.

We were informed that approximately 50% of the tires are scrapped in-house. The balance of the tires is assessed by KAL. There is some risk that KAL disposes of usable tires as defective. We believe that Fleet needs to have a more active role in the process of scrapping and disposing of tires.

1.1.7.2.5 Re-capping of heavy vehicle tires

Re-capping heavy vehicle tires provides cost savings of approximately 50% (\$220 vs. \$500) over cost of new tires but with a life expectancy of roughly 70% of a new tire. Steering tires (generally the front set of tires) are never recapped. OC Transpo, as a comparison, recaps approximately 70% of its replacement tires.

The City currently operates a fleet of 658 “heavy” vehicles (garbage trucks, fire trucks, bucket trucks etc...). The City purchased 1056 heavy vehicle tires in 2012 and the first 10 months of 2013, of which 680 or 64% were recaps. The City is achieving benefits from its recapping activities.

The City is actively trying to determine a fixed price for casing credits to simplify the management of the process as it is difficult to track the volume and the related credits for the casings.

1.1.7.2.6 Retorquing charges

Per the contract, wheels removed and installed by KAL need to be re-torqued at specific intervals free of charge. Wheels removed and mounted by the City and re-torqued by

KAL are subject to a re-torque fee which is \$7.12 per the contract. A statistically valid sample of 44 was selected. Nine errors were noted. While the value per transaction is low this demonstrates a weakness in the City's control over monitoring of invoices even if the total financial implication is immaterial.

1.1.7.2.7 Alignment and Balancing charges

The contract with KAL allows for balancing charges. This charge is typically included as a package price as per the agreement and often part of the mount / dismount process charge. Wheels are balanced prior to installation on the vehicle thus reasonable even where the service call is to attend to a vehicle located in a park. While balancing charges may appear automatic, all new tire installations on rims require balancing. Of the 7,974 balancing charges, a statistically valid sample of 45 was selected and three immaterial errors were identified.

The City performs their alignments in house. No problems noted with respect to alignment expenditures.

1.1.7.2.8 Charges for Service Calls

A service call is approximately \$65.

We reviewed all the work orders issued to KAL that contained more than one service call. It was noted that only 119 of the 3,542 had more than one service call. This represents only 3.3% of all work orders with KAL. Of the 119 work orders, 28 were selected for detailed testing to ensure the charges are reasonable and valid. We found eight situations where incorrect charges were not detected by the established control framework. While the financial impact of the errors is not material, the process should be reviewed with the appropriate staff to ensure the erroneous charges are detected and appropriately dealt with.

1.1.7.2.9 Studding Zamboni Tires

In our discussions with various City officials and employees, there appears to be inconsistencies in the cost and in the number of studs utilized in the studding of tires of ice surfacing machines (Zambonis) at City rinks.

KAL assumed this responsibility in light of the standing offer awarded to them. Following inconsistencies and unresolved issues with KAL, the work was issued to Osgoode Tire in September, 2012.

The City examined the feasibility of studding the tires in-house given the capital investment is minimal and the know-how exists internally. We were informed that the services will be undertaken in-house in the immediate future as City approvals have been received.

1.1.7.2.10 Performance Management

Currently the City is not satisfied with the performance indicators at its disposal to track supplier performance. It lacks hard data from appropriate performance indicators and must proceed on a case-by-case basis to flag concerns to KAL.

Nevertheless, to date three default letters were sent to KAL. The dates of the three notifications are:

- Letter #1: May 9, 2011
- Letter #2: May 10, 2013
- Letter #3: September 16, 2013

We were informed that Legal has yet to be involved.

1.1.7.2.11 Opportunity for savings

The City has for many years outsourced its roadside servicing related to tires and as such no savings were projected for workload savings. However, it did project that better overall “program management” would save money. As discussed in the text of this report, there is no data available to evaluate this position.

1.1.7.2.12 Conclusion

The Agreement with KAL lacks sufficient and appropriate performance indicators, and the City lacks the means to collect the information to monitor performance against these. The City needs to develop meaningful performance indicators and the tools to collect the data to manage service delivery.

The procurement process used for the Standing Offer Agreement with KAL adhered to existing policy and procedure, including the application of pre-determined criteria for vendor selection, which reasonably ensured a fair and open process.

We noted some minor control weaknesses in the review practices during the invoice approval process.

We are unable to conclude on the overall service level rendered against the standing offer or potential savings as there is insufficient means to report on the data available in M5.

Recommendation 7

That the City reconsider several aspects of its upcoming Standing Offer Request for Proposal for the provision of tires and related services including;

- a) **Reassessing the point distribution for award to further emphasize service over reporting capabilities.**
- b) **Establishing meaningful and measurable KPIs, such as:**
 - **Time to Dispatch;**

- **Time to site to service vehicle; and,**
 - **Time to complete work (through negotiation, agreed upon standards can be established).**
- c) **Making it mandatory for the proponent to use a handheld device to record service milestones noted above, or an acceptable alternative.**
- d) **Penalties for non-compliance which increase the longer they are unaddressed (i.e., the longer the vehicle is not operational the higher the penalty).**
- e) **Awarding standing offers to more than one supplier. This would provide the City with a systematic protocol for the allocation of work and approved vendor alternatives if the primary vendor cannot supply.**

Management Response

Management agrees with this recommendation.

The award structure for the most recent Tire Services Standing Offer was reworked to fully implement the auditor’s recommendations:

- a) Service over reporting was achieved by ensuring reporting items necessary for the tracking of tire services and relevant KPIs were established as requirements in the Request for Standing Offer.
- b) Performance indicators used in the current Tire Services Standing Offer were chosen to be meaningful to the operation, and independently verifiable. Time to dispatch and time to arrive on site are reported in the weekly summary invoices provided to Fleet Services.
- c) Handheld devices are not commonly used in the tire services industry, instead service call data is provided on weekly invoices – as this data can be verified against Fleet Management Information System work orders, this was deemed an acceptable alternative.
- d) Performance and invoicing issues that may crop up will be addressed in cooperation with Supply Branch through the non-performance clauses in the standing offer. A committee consisting of Fleet, Supply and critical clients came to consensus that liquidated damages would be less effective than directly penalizing the vendor by giving the business to their competitor. The new standing offer is based on lowest responsive offer per price schedule basis, per geographical area. The Tire Services Standing Offer has been changed to an eligibility list structure (for each geographical area) to address supply and non-compliance concerns.
- e) The standing offer was awarded to more than one vendor. More specifically, the standing offer now divides the city into two (2) geographical areas (East and

West) and it calls for a service provider in each of these areas. In the event the primary provider cannot supply, the City moves to the second provider on the list.

Recommendation 8

That the City establish practices to better monitor and control all aspects of the tire program, including;

- a) The retention process and used tire inventory, and the value it is receiving through disposal of good but unwanted units.**
- b) Assessing the condition of the tires before they are scrapped / removed by the supplier.**
- c) Reviewing controls around the process to ensure only eligible expenditures are paid to the service provider.**

Management Response

Management agrees with this recommendation.

The most recent standing offer is supported by documented guidelines to fully implement the auditor's recommendations. Tire storage and disposal guidelines have been published and distributed to our Tire Services providers to better control the disposal of used and/or damaged tires. Additionally, as part of the basis of award for the Tire Services Standing Offer, a fixed credit was assigned to surplus casings. This ensures the City receives fair market value for surplus heavy truck casings.

- a) Used tire inventory is tracked through up-to-date inventory reports provided by the Tire Services providers, available on request. This data is monitored, and utilized by Fleet Services staff to ensure the disposal value received is appropriate.
- b) Scrapping of tires is controlled through the storage and disposal guidelines, and any large scale disposal of tires is monitored by Fleet Services staff.
- c) Additional financial controls have been put in place, with call back requirements for Tire Services providers upon completion of work or change to estimate, and payment conditions are more stringently enforced by Fleet Services staff.

1.1.8 Identified Savings

We have identified the following savings:

- 1. In future contracts, the elimination of the requirement for the service provider for parts to be on-site has the potential to save approximately \$100,000 per year.
- 2. The City has for many years outsourced its roadside servicing related to tires and as such no savings were projected for workload savings. However, it did project that better overall "program management" would save money. As discussed in the text of this report, there is no data available to evaluate this position.

1.1.9 Conclusion

The contracting process used for both the NAPA contract and the Standing Offer Agreement with KAL adhered to existing policy and procedure, including the application

of pre-determined criteria for vendor selection, which reasonably ensured a fair and open process.

Penalties are being collected from NAPA in accordance with the established performance indicators. However, the established performance indicators do not provide for the aging of parts orders that are unfilled.

The Agreement with KAL lacks sufficient performance indicators, and the City lacks the means to collect the information to monitor performance against these. The City needs to develop meaningful performance indicators and the tools to collect the data to manage service delivery.

1.1.10 Acknowledgement

We wish to express our appreciation for the cooperation and assistance afforded the audit team by management.