



Office of the Auditor General / Bureau du vérificateur général

**FOLLOW-UP TO THE 2005 AUDIT OF THE
PROCUREMENT PROCESS**

2009

**SUIVI DE LA VÉRIFICATION DU PROCESSUS
D'ACQUISITION DE 2005**

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EXECUTIVE SUMMARY

Introduction

The Follow-up to the 2005 Audit of the Procurement Process was included in the Auditor General's 2009 Audit Plan.

The key findings of the original 2005 audit included:

- The City should place greater emphasis on pricing when it contracts for outside services in order to realize significant savings.
- A greater emphasis should be placed on the price component when evaluating engineering proposals, raising it from 15% to 30%.
- There were significant increases to several engineering contracts through the use of amendments.
- There should be better management of standing offers with a greater emphasis on price.
- Standing offers are awarded to relatively large numbers of suppliers yet work is consistently awarded to a few firms with little consideration of cost.
- Non-conformities to the procurement process are relatively low but the overall process for reporting to Council on procurement matters needs improvement.

Summary of the Level of Completion

The table below outlines our assessment of the level of completion of each recommendation as of Fall 2009.

CATEGORY	% COMPLETE	RECOMMENDATIONS	NUMBER OF RECOMMENDATIONS	PERCENTAGE OF TOTAL RECOMMENDATIONS
LITTLE OR NO ACTION	0 – 24	-	-	-
ACTION INITIATED	25 – 49	15	1	4%
PARTIALLY COMPLETE	50 – 74	6, 7, 8	3	12%
SUBSTANTIALLY COMPLETE	75 – 99	21	1	4%
COMPLETE	100	1, 2, 3, 4, 5, 9, 10, 11, 12, 13, 14, 16, 17, 18, 19, 20, 22, 23, 24, 25	20	80%
TOTAL			25	100%

Conclusion

As a result of some initiatives within the City, there have been some Council approved amendments to Purchasing By-law 50 since the 2005 audit. The thresholds for standing offers have been increased to \$150,000, the limits for sole sourcing have been increased, and a standard price component for some

contracting activities has been established, and this affects some of the initial recommendations.

In the file review associated with the follow-up of progress against the original recommendations, there were no material issues identified.

There are still some issues related to specific standing offers and their overall management - Engineering Services and Translation, where allocation of work based on cost or "ranking" of proponents is not being done, and work continues to be concentrated.

Significant progress has been made in implementing all but one of the original recommendations and this has resulted in better overall control.

Acknowledgement

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

RÉSUMÉ

Introduction

Le Suivi de la vérification du processus d'acquisition de 2005 était prévu dans le Plan de vérification du Bureau du vérificateur général de 2009.

Les constatations principales de la vérification initiale de 2005 sont les suivantes :

- La Ville devrait accorder une plus grande importance à l'évaluation des prix dans ses décisions d'octroyer des contrats pour des services externes, et ce, afin de réaliser des économies substantielles.
- Une plus grande importance devrait être donnée à la composante du prix lors de l'évaluation des propositions relatives à des services d'ingénierie, la haussant de 15 % à 30 %.
- Des augmentations substantielles ont été données à plusieurs contrats d'ingénierie par le biais de modifications.
- Une meilleure gestion des offres à commandes devrait être exercée en accordant plus d'importance aux prix.
- Les offres à commandes sont attribuées à un nombre relativement élevé de fournisseurs; toutefois, le travail est confié de façon systématique à quelques firmes, sans se soucier outre mesure du prix.
- Les non-conformités au processus d'acquisition sont relativement peu fréquentes, mais le processus général de rapport au Conseil concernant les questions d'acquisition doit être amélioré.

Sommaire du degré d'achèvement

Le tableau ci-dessous présente notre évaluation du degré d'achèvement de chaque recommandation à l'automne 2009 :

CATÉGORIE	POURCENTAGE COMPLÉTÉ	RECOMMANDATIONS	NOMBRE DE RECOMMANDATIONS	POURCENTAGE DU TOTAL DES RECOMMANDATIONS
PEU OU PAS DE MESURES PRISES	0 - 24	-	-	-
ACTION AMORCÉE	25 - 49	15	1	4 %
COMPLÉTÉE EN PARTIE	50 - 74	6, 7, 8	3	12 %
PRATIQUEMENT COMPLÉTÉE	75 - 99	21	1	4 %
COMPLÉTÉE	100	1, 2, 3, 4, 5, 9, 10, 11, 12, 13, 14, 16, 17, 18, 19, 20, 22, 23, 24, 25	20	80 %
TOTAL			25	100 %

Conclusion

À la suite de quelques initiatives à la Ville, quelques modifications approuvées par le Conseil ont été apportées au Règlement 50 sur les acquisitions depuis la vérification de 2005. Les seuils des offres à commandes ont été augmentés à 150 000 \$, les limites pour l'attribution de contrats à un fournisseur exclusif ont été rehaussées et une composante de prix standard pour certaines passations des contrats a été établie, ce qui affecte certaines des recommandations initiales.

Aucune question substantielle n'a été cernée dans l'examen du dossier lié au suivi de l'état d'avancement des recommandations originales.

Il reste quelques questions relatives à des offres à commandes précises et à leur gestion globale, comme pour les Services d'ingénierie et le Service de traduction où l'attribution du travail n'est pas effectuée en fonction du prix ou du « classement » des proposants, mais ne reste restreinte qu'à quelques-uns.

Des progrès importants ont été réalisés dans la mise en œuvre de toutes les recommandations sauf une, ce qui se traduit dans l'ensemble par un meilleur contrôle.

Remerciements

Nous tenons à remercier la direction pour la coopération et l'assistance accordées à l'équipe de vérification.

1 INTRODUCTION

The follow-up to the 2005 Audit of the Procurement Process was included in the Auditor General's 2009 Audit Plan.

The key findings of the original 2005 audit included:

- The City should place greater emphasis on pricing when it contracts for outside services in order to realize significant savings.
- A greater emphasis should be placed on the price component when evaluating engineering proposals, raising it from 15% to 30%.
- There were significant increases to several engineering contracts through the use of amendments.
- There should be better management of standing offers with a greater emphasis on price.
- Standing offers are awarded to relatively large numbers of suppliers yet work is consistently awarded to a few firms with little consideration of cost.
- Non-conformities to the procurement process are relatively low but the overall process for reporting to Council on procurement matters needs improvement.

2 KEY FINDINGS OF THE ORIGINAL 2005 AUDIT OF THE PROCUREMENT PROCESS

Key Findings

1. For activities under the direct control of Supply Management, the audit determined that the number of material infractions was relatively low. Under the By-Law, all contracts greater than \$10,000 are to be processed by Supply Management staff. An existing feature of the corporate financial system effectively forces transactions greater than \$10,000 to be released through Supply Management.

A Contract Approval Request (CAR) has been put in place and is operating with a risk-based approach to review procurement requirements. As the dollar value increases, so does the requirement for senior management review and approval. This represents a significant step in accountability and management control. However, the CAR should be integrated within the procurement model of the financial system.

2. The overall process for reporting to Council needs improvement. The exact value of contracting services acquired through Standing Offers and Payments without Reference to a contract could not be readily extracted from the financial system. Information on these transactions is not reported in full to Council.

Steps have been initiated to improve the quality, completeness and timeliness of information, however additional refinements are required to establish procedures to monitor and report contracting activity for compliance and performance. The format could be improved with a high level summary by transaction type and highlighting any major exceptions to policy and procedure, particularly as they relate to the inappropriate use of Payments without Reference. In order to improve the timeliness of reporting, the process for review and editing needs to be streamlined with fewer edits to the nature of the actual goods or services acquired.

3. The choice of methodology in evaluating proposals does not always reflect price differentials. This means significant premiums can be paid for proposals with minor differences in quality. For example, we found an instance where proposals received the same score for price even though one was \$140,000, while the other was \$70,000. The methodology for evaluating price should be changed so that marks awarded for the price component of the proposal clearly reflect differentials in price.
4. Value for money could be enhanced through raising the price component in Requests for Proposals, including Requests for Standing Offers, from 15% to 30%, providing there is a change in the evaluation methodology as stated above. These practices could lead to significant cost savings. For example, Supply Management estimates that based on the award of twelve engineering assignments valued at 5.2 million during the summer of 2005, cost savings of \$580,000 could have been realized if the price component on their proposals had been raised to 30%, and the evaluation methodology changed. This represents significant potential savings, especially in the area of engineering services, which are currently estimated to cost \$40 million annually.
5. Better management of Standing Offers would enhance fairness and transparency and contribute to obtaining better value. Currently, Standing Offers are awarded to relatively large numbers of suppliers, yet work is concentrated with a few firms with little consideration of cost differentials. This means that premiums may be paid for work of similar quality and that work is not awarded in a fashion that is open, fair and transparent.

We also found some areas where Standing Offers could be implemented. We noted several significant examples where Fleet Services had aggregate expenditures greater than \$250,000 with firms that had no Standing Offer in place. A minimum of \$2 million dollars worth of purchases for Fleet parts requirements and a further \$4 million for service requirements are made without use of Standing Offers, and opportunities may be lost to obtain discounts. Standing Offers should be established for these commonly purchased low dollar value items.

6. Purchasing cards are generally well managed with a well-defined process in place for the procurement and payment of low dollar value goods and services. Almost all recommendations pertaining to Purchasing Cards in the 2003 Audit of the Corporate Card and Purchasing Card Program have been implemented and are operating as intended. However, some computer purchases continue to be paid for using Purchasing Cards contrary to the 2003 audit recommendations.
7. Payments without Reference are made for goods or services that have been acquired without a Purchase Order, without the involvement of Supply Management. The audit revealed that this type of transaction has significant rates of non-compliance with existing policy and procedure.

These transactions are not adequately monitored, nor are they included in Supply Management reports to Council. Additionally, an exception report for Payments without Reference is not currently prepared for the City Manager, in order to minimize their occurrence.

8. Standard contractual Terms and Conditions are occasionally waived by Directors and/or Supply Management, without the input of Risk Management, thereby exposing the City to greater risk than necessary.
9. Amendments can create situations where sole source contracts exceed the intended \$50,000 limit of the By-Law. In addition, amendments for Follow-on Work can lead to the value of projects being several times greater than the original scope of the initiative.

3 STATUS OF IMPLEMENTATION OF 2005 AUDIT RECOMMENDATIONS

2005 Recommendation 1

That Supply Management not process any contracts for goods or services which have already been delivered, or for which work has begun.

2005 Management Response

Management agrees with this recommendation.

Management does not endorse processing any contract “after the fact”, where Purchasing has not been properly involved in the process.

This recommendation is clearly supportable; however the outcome is that without purchasing involvement, no Purchase Order may be issued. Within SAP, that limits the payment tool to only “payment without reference”, which is unfortunately not always an acceptable option. Some contracts, even those incorrectly initiated outside of purchasing, require that purchasing find a means of supporting them, in order to allow the issuance of a Purchase Order contract. A

review of the cost of removing this limitation from SAP will be pursued with the Information Systems Branch in Q2 2006.

Management Representation of the Status of Implementation of Recommendation 1 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete **100%**

OAG's Follow-up Audit Findings regarding Recommendation 1

In all 20 files examined, contracts were in place before work began.

OAG: % complete **100%**

2005 Recommendation 2

When a contract has been entered into on a sole source basis, the total value of the contract, including all amendments, should not exceed \$50,000 without the approval of the City Manager.

2005 Management Response

Management agrees with the intent of this recommendation.

Sole source contracting at the City, although permitted in the Purchasing By-Law under stipulated conditions, is strongly discouraged by Corporate Purchasing. It is estimated that approximately 10% of all purchases are sole sourced which is representative of best practices industry wide. Amendments occur when there are scope changes and when it would be counter-productive to put the additional work to tender. Management will examine the need to establish any additional thresholds for amendments and, if necessary, proceed with the revisions to the Purchasing By-law.

Management does not support the City Manager approving sole source contracts over \$50,000 and believes existing due diligence which includes review by either the Chief Corporate Services Officer or Deputy City Manager when necessary would continue to suffice.

Management Representation of the Status of Implementation of Recommendation 2 at December 31, 2008

Implementation of this recommendation is 100% complete. At the October 2, 2006 meeting of CAWG, the following change was made with respect to the level of approval authority: When a contract has been entered into on a sole source basis, the total value of the contract, including all amendments, should not exceed \$50K without the approval of the Chief Corporate Services Officer or Deputy City Manager. This was approved by Council on October 25, 2006.

Management: % complete **100%**

OAG's Follow-up Audit Findings regarding Recommendation 2

On October 25, 2006 Council approved a submission from Supply Management for changes to the implementation of recommendations of the Audit of Procurement: "When a contract has been entered into on a sole source basis, the total value of the contract, including all amendments, should not exceed \$50,000 without the approval of the Chief Corporate Services Officer or Deputy City Manager."

Then on December 19, 2008 the threshold was increased to contracts greater than \$100,000 issued on a sole source basis, including all amendments, required the approval of the Chief Corporate Services Officer or Deputy City Manager.

The intent of the recommendation was to increase oversight and Management believes that this is sufficient due diligence.

The intent of the recommendation has been 100% met.

OAG: % complete ***100%***

2005 Recommendation 3

Supply Management should ensure the total value of amendments to the scope of work of any contract should not exceed 50% of the original contracted amount without the approval of the City Manager.

2005 Management Response

Management agrees with this recommendation.

The recommended methodology is currently used for most contracts whereas the benchmark average methodology is used for consulting engineering assignments. Management will implement a methodology that better reflects price differences. This will be initiated in Q2 2006 in conjunction with Recommendation 5.

Management Representation of the Status of Implementation of Recommendation 3 at December 31, 2008

Implementation of this recommendation is 100% complete. This item was discussed at the October 2, 2006 meeting of CAWG and was approved by Council on October 25, 2006. Further to this discussion, approval for amendments to the scope of work exceeding 50% and \$50K were to be approved by the Deputy City Manager (or Chief Corporate Services Officer), and were to be reported to CSEDC annually. These types of amendments are now approved at the Deputy City Manager level and are reported to CSEDC quarterly.

Management: % complete ***100%***

OAG's Follow-up Audit Findings regarding Recommendation 3

On October 25, 2006 Council approved a submission from Supply Management: "That Supply Management should ensure that in instances where the amendment has both a value of at least \$50,000 AND is greater than 50% of the original

contracted amount, approval is required from the Chief Corporate Services Officer or the Deputy City Manager”.

This meets the intention of the original recommendation.

OAG: % complete **100%**

2005 Recommendation 4

That Supply Management adopt evaluation methodologies that better reflect price differences in proposals for professional services, such as standard deviation, low bid or price per point.

2005 Management Response

Management agrees with this recommendation.

The recommended methodology is currently used for most contracts whereas the benchmark average methodology is used for consulting engineering assignments. Management will implement a methodology that better reflects price differences. This will be initiated in Q2 2006 in conjunction with Recommendation 5.

Management Representation of the Status of Implementation of Recommendation 4 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete **100%**

OAG’s Follow-up Audit Findings regarding Recommendation 4

The current evaluation methodologies applied by Supply Management better reflect price differences in proposals for professional services using standard deviation, low bid or price per point selection.

Recommendation has been 100% implemented.

OAG: % complete **100%**

2005 Recommendation 5

That Supply Management ensure that the pricing component in Requests for Proposals of professional services is immediately standardized at a minimum of 30%.

2005 Management Response

Management agrees with the intent of this recommendation.

Currently, the weighting for the price component varies depending upon the type of professional service being contracted. In many cases the pricing component is in fact above 30%. Our experience has been that considerable flexibility is required. This is an area that staff has reviewed frequently and over the years the weighting for the factor has moved from cost not being a factor (i.e. 0%) to a minimum

weighting of 15%. One of the areas where concern regarding the establishment of a 30% minimum exists is in the studies and infrastructure design services.

Management has reviewed the threshold for the pricing component based on the practices used in other Canadian municipalities and government departments. That review indicates that 20% is a common threshold for infrastructure design and engineering, and the City will move up to that threshold immediately. It should be noted that an initiative to benchmark best practices for procuring engineering services is being conducted by InfraGuide (National Guide for Sustainable Municipal Infrastructure) whose guiding principles Council endorsed in 2003. InfraGuide expects to publish its draft report for review and comment in March 2006. At that time, management will review the results with the Auditor General to determine what other changes may be necessary to best provide the City with value for money when procuring engineering services.

Management Representation of the Status of Implementation of Recommendation 5 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete *100%*

OAG's Follow-up Audit Findings regarding Recommendation 5

In all instances other than engineering services, the pricing component has been set at 30%.

At the CSEDC meeting of May 18, 2006, Motion 5 was carried amending from "30%" pricing component to a minimum of "20%" for engineering services.

Recommendation has been 100% implemented.

OAG: % complete *100%*

2005 Recommendation 6

Supply Management should ensure that a reasonable number of firms are eventually awarded Standing Offers, using price as a significant component (a minimum of 30%) in the evaluation process.

2005 Management Response

Management disagrees with this recommendation.

Management has completed the review and believes that the current process does provide some assurance that firms will receive some work.

The majority of Standing Offers use a price component of 100%, and are awarded based on lowest bid. A list of authorized firms is available on the basis that the lowest cost service provider will be called first. Management attempts to limit the number of firms to a level that would ensure that most or all will receive work; however, Standing Offers are set up in advance of actual assignments being known.

The basic premise of a Standing Offer, clearly stipulated in each procurement solicitation, is that no guarantee of work is provided. In addition, in the case of translation, those firms that are listed on the Standing Offer have the quality of their work monitored on a regular basis. If two pieces of work are returned that are substandard, the firm is removed from the Standing Offer listing.

The various firms represented on a Standing Offer can vary significantly in size, resources, and capability. Therefore, it is not unreasonable to suggest that a larger firm with more staff and a wider expertise base may be used more often than a smaller vendor authorized on the same Standing Offer. In areas such as translation this can result in some firms receiving greater volumes of work due to their ability to provide specific skills or quicker turnaround due to their size and expertise. Conversely, some smaller firms offer specialized, technical translation services (for issues in health, engineering or finance for example). These types of request occur less frequently, but the specialized firms receive that work over the generalist firms.

Additionally, as an outcome of the recent successful Rural Summit, the concept of geographic representation of service providers, in the rural segments of the City, has been recommended as a possible procurement initiative. If adopted, this approach would result in additional firms being added to Standing Offers, with more choice to the various urban and rural sections of the City, in order to ensure that contractors providing service have knowledge of the diverse and often specialized requirements that pertain to those different areas.

Management Representation of the Status of Implementation of Recommendation 6 at December 31, 2008

Implementation of this recommendation is 100% complete. Management has completed the review and believes that the current process does provide some assurance that firms will receive some work. The basic premise of a Standing Offer, clearly stipulated in each procurement solicitation, is that no guarantee of work is provided. Additionally, as an outcome of the successful Rural Summit, the concept of geographic representation of service providers, in the rural segments of the City, was recommended as a possible procurement initiative. The current approach results in additional firms being added to Standing Offers, with more choice to the various urban and rural sections of the City, in order to ensure that contractors providing service have knowledge of the diverse and often specialized requirements that pertain to those different areas.

Management: % complete ***100%***

OAG's Follow-up Audit Findings regarding Recommendation 6

Management disagreed with this recommendation.

Engineering and translation services are generally allocated on components other than price, such as: staff skill, availability, firm's past experience, etc.

Engineering services are grouped in six different streams. We found that for:

- Stream 4 (Structural Services, Bridges, Culverts, Retaining Walls) the largest at \$2.64 million, 2 of 12 firms receive 50% of the work;
- Stream 2, (Design and Construction of Roads, Sewers, Watermains, etc.) second largest at \$2.1 million, 4 of 17 firms receive 58% of the work; and,
- Stream 1 (Planning, Feasibility, Pre-engineering & Environmental Studies) the third largest at \$1.77 million, 3 of 19 firms receive 55% of the work.

For translation services, we observed that only a few firms were awarded a significant portion of the work (5 of the 35 firms received 56% of the work).

For “non-professional” services such as graffiti removal services and electrical and plumbing, only one or perhaps two suppliers were awarded standing offers (for electrical and plumbing also segregated by region).

Management disagreed with this recommendation.

OAG: % complete ***50%***

Management Representation of Status of Implementation of Recommendation 6 as of Winter 2010

Management disagrees with the OAG’s follow-up audit finding that implementation of this recommendation is only partially complete.

The weighting of financial offers for standing offers has been increased to a minimum of 30%, with the exception of engineering services, which remains at a minimum of 20% as directed by Council. Moreover, a new method of evaluating financial offers has been introduced based on a median value of unit prices. Financial offers exceeding a defined threshold above the median will be disqualified and not authorized for use. Management considers implementation of this recommendation to be complete.

Management: % complete ***100%***

2005 Recommendation 7

Supply Management ensure that all new Standing Offers have effective evaluation criteria established in order to rank proponents to ensure the City achieves “best value”.

2005 Management Response

Management agrees with this recommendation.

This is reflective of current purchasing practice, and a focus on new Standing Offer opportunities will be implemented by Q3 2006.

Management Representation of the Status of Implementation of Recommendation 7 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete **100%**

OAG's Follow-up Audit Findings regarding Recommendation 7

In the issuance of the standing offer (SO) for engineering services – the selection methodology referred to price as reflecting 20% of award – however, there is no real “ranking” to reflect best value and call-ups are not made in relation to price. For translation services, there is no ranking for value based on price.

For engineering services, of the six streams of work, streams 2 and 4 accounted for \$4.7 million of the \$8.4 million in 2008 expenditures. As previously mentioned, 2 of 12 firms were awarded 50% of the work in Stream 4.

Standing offers for “non-professional” services such as graffiti removal and electrical are issued based 100% on price.

There is a best practice available - for informatics services: 40% price component with bidding done within standing offer.

For engineering services – the call to establish SO has features to establish “value” but these are not applied. It is project managers who make determination for allocation of work.

The recommendation has been 60% implemented.

OAG: % complete **60%**

Management Representation of Status of Implementation of Recommendation 7 as of Winter 2010

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only partially complete.

An evaluation as to what constitutes best value can only be made on a requirement-to-requirement basis based on which firm is best suited to perform the work given the complexity of the project, the deliverables required and the required timeframe. Management disagrees that bidders responding to a RFSO should be ranked based on best value. Best value should instead be determined at the time of call-up against the standing offer and not made in relation to price alone. Management considers implementation of this recommendation to be complete.

Management: % complete **100%**

2005 Recommendation 8

For existing Standing Offers, Supply Management should develop specific management processes in order to ensure that work is allocated equitably.

2005 Management Response

Management agrees with this recommendation.

This is reflective of current purchasing practice, and a focus on new Standing Offer opportunities will be implemented by Q3 2006.

Management Representation of the Status of Implementation of Recommendation 8 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete *100%*

OAG's Follow-up Audit Findings regarding Recommendation 8

For engineering and translation services, the selection was made on criteria other than price, e.g., staff skills, availability, firm's past experience, etc. For IT services, there is supplemental bidding with price at 40% within the call-up process.

We noted that Supply Management provides call-up data to Engineering Services to show how work is being allocated. As noted at recommendation 7, for translation and engineering services, there is no effective mechanism to distribute work equitably.

OAG: % complete *60%*

Management Representation of Status of Implementation of Recommendation 8 as of Winter 2010

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only partially complete.

An evaluation as to what constitutes best value can only be made on a requirement-to-requirement basis having assessed which firms are best suited to perform the work given the complexity of the project, the deliverables required and the required timeframe. This basis of selection will not necessarily result in work being distributed equitably, but will ensure that the City receives best value. Management considers implementation of this recommendation to be complete.

Management: % complete *100%*

2005 Recommendation 9

When evaluating proposals for Standing Offers, Supply Management should ensure the various categories of professional are weighted to reflect usage.

2005 Management Response

Management agrees with this recommendation.

This will be implemented by Q3 2006.

Management Representation of the Status of Implementation of Recommendation 9 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete 100%

OAG's Follow-up Audit Findings regarding Recommendation 9

This recommendation applies to engineering services. This requirement was built into the establishment of the current standing offer.

This recommendation has been 100% implemented.

OAG: % complete 100%

2005 Recommendation 10

Supply Management should ensure that all call-ups against Engineering Standing Offers be required to bid resources against the classifications contained in their Standing Offer Agreement or that the bids be deemed non responsive.

2005 Management Response

Management agrees with the intent of this recommendation.

Management generally concurs with the recommendation but believes that certain situations may require flexibility.

Standing Offers by their very nature are issued in advance of specific assignments being fully scoped, or in some cases known at all. The resources therefore, against which proponents commit firm per diem rates, tend to be typical, generic classifications; however, they do cover the majority of "down stream" needs which follow and become call-ups against the Standing Offer.

It should be recognized that occasionally an authorized firm may have the need to include a specialized resource on a proposal in order to respond to the specific needs of an assignment, and that in-house expertise exists in Supply Management division to ensure that the City is getting the best cost

Management Representation of the Status of Implementation of Recommendation 10 at December 31, 2008

Implementation of this recommendation is considered 100% complete. Further to the management response provided above, Management believes current practices meet needs in that standing offers cover multiple years, are issued in advance of specific needs being known and that expertise exists within Supply Management division to validate consultant rates for unique expertise that may be needed in specific call-up situations

Management: % complete 100%

OAG's Follow-up Audit Findings regarding Recommendation 10

Call-ups against engineering standing offers are now required to bid resources against the classifications contained in their standing offer, or deemed non-responsive.

The intent of the recommendation has been 100% implemented.

OAG: % complete *100%*

2005 Recommendation 11

When Information Technology Services calls for bids and the individual selected (originally submitted for evaluation by the winning proponent) is unavailable for work, the second qualified bid be selected (rather than the original firm substituting another individual).

2005 Management Response

Management agrees with this recommendation. A review by Information Technology Services indicates that this is a current practice; however, it is acknowledged that a deviation to the practice occurred inadvertently only once (in 2003). The Standing Offer has been in use for five years.

Management Representation of the Status of Implementation of Recommendation 11 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete *100%*

OAG's Follow-up Audit Findings regarding Recommendation 11

When Information Technology Services calls for bids and the individual selected is unavailable for work, the second qualified bid is selected.

This recommendation has been 100% implemented.

OAG: % complete *100%*

2005 Recommendation 12

When Information Technology Services issues calls for proposals, that all invitees be reminded of the criteria against which they will be assessed.

2005 Management Response

Management agrees with this recommendation.

This will be implemented immediately.

Management Representation of the Status of Implementation of Recommendation 12 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete *100%*

OAG's Follow-up Audit Findings regarding Recommendation 12

When Information Technology Services issues calls for proposals all invitees are reminded of the criteria against which they will be assessed.

Recommendation has been 100% implemented.

OAG: % complete *100%*

2005 Recommendation 13

Supply Management ensure that all Standing Offer Agreements have an original maximum cap for call-up of \$100,000, with the total value of amendments not to exceed a further \$50,000, or 50% of the original call-up, without the approval of the City Manager

2005 Management Response

Management agrees with the intent of this recommendation.

Management agrees that the total value of amendments to call-ups should not exceed 50% of the value of the original call-up. In addition, most standard call-ups have a threshold of \$120,000, which we feel is reasonable. Although most existing call-ups are typically limited to the \$100-\$120,000 range, establishing a specific dollar threshold does not reflect the very real differences in the types of goods and services that the City purchases. For example, a \$100,000 cap may be too much for the purchase of office supplies, but would not begin to meet the needs to secure SAP resources or purchase steel.

Information Technology, for example, frequently has instances where contracts for SAP related resources require more than 100 days of commitment, because the resources are difficult to find, the per diem rates are high, and vendors require longer commitments in order to guarantee availability.

While management agrees that there should be a 50% cap on amendments to call ups, it recognizes that, at least in the case of Infrastructure Services and Public Works, there are instances where there may be a need to exceed these limits to deal with follow-on work where changing firms is not in the City's interest financially. These exceptions should have the City Manager's approval.

Management Representation of the Status of Implementation of Recommendation 13 at December 31, 2008

Implementation of this recommendation is 100% complete. Council approval on May 9, 2007 dealt with the first half of the recommendation, which determined that there would be no limit for call-ups to the standing offer for IT SAP resources, with approval from the CCSO / the Executive Director, Business Transformation Services. Currently, approval is from the Deputy City Manager of City Operations.

Council approval on October 25, 2006 dealt with the second half of the recommendation in relation to the approval of amendments. All other call-ups against standing offers, including engineering services, are limited to an initial call-up of \$100K.

Document 4, attached to a staff report brought to CSEDC on September 4, 2007 and Council on September 12, 2007, complied with the reporting requirement approved by Council on October 25, 2006. It identified amendments to contracts that have both a value of at least \$50K and are greater than 50% of the original contracted amount.

At its 29 January 2007 meeting, CAWG dealt with the remaining piece and recommended approval of no limit to standing offers for IT SAP resources with the approval of the CCSO. Standing offers for engineering contracts would have a limit of 100K. In 2008, Council authorized higher call-up limits of \$150K as part of the revised procurement savings.

Management: % complete ***100%***

OAG's Follow-up Audit Findings regarding Recommendation 13

The Purchasing By-law was amended to raise maximum call-up cap for standing offers to \$150,000 from \$100,000.

See 21 (9) of the By-law for revised cap of \$150,000 without the approval of the Chief Corporate Services Officer or Deputy City Manager. Levels of Contract Approval Authority Document addresses the amendment limit of \$50,000 or 50% or original value as noted at recommendation 3.

Recommendation has been 100% implemented.

OAG: % complete ***100%***

2005 Recommendation 14

Supply Management should review purchasing activities related to Fleet Services and develop appropriate Standing Offers and/or tenders.

2005 Management Response

Management agrees with this recommendation.

This will be implemented by Q3 2006

Management Representation of the Status of Implementation of Recommendation 14 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete ***100%***

OAG's Follow-up Audit Findings regarding Recommendation 14

Supply Management provided the 2005 list of Fleet related SO that had 43 agreements. The current site lists 87 agreements.

Recommendation has been 100% implemented.

OAG: % complete **100%**

2005 Recommendation 15

Where organizations make call-ups directly, a copy should be forwarded to Supply Management for monitoring purposes

2005 Management Response

Management agrees with this recommendation.

This will be implemented by Q2 2006.

Management Representation of the Status of Implementation of Recommendation 15 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete **100%**

OAG's Follow-up Audit Findings regarding Recommendation 15

Due to volume issues, Supply Management does not currently monitor calls-up. However, transaction details are available from SAP and information is analyzed in the preparation of new standing offers. Supply Management has plans to develop a greater monitoring role in the near future.

Recommendation has been 30% implemented.

OAG: % complete **30%**

Management Representation of Status of Implementation of Recommendation 15 as of Winter 2010

Management disagrees with the OAG's follow-up audit finding that action has been initiated to implement this recommendation but it is not yet considered partially complete.

Due to volume issues, Supply Management continues to analyze call-up data from SAP when preparing new standing offers. Supply Management is in the process of developing a Strategic Sourcing section that will play an expanded role in the reporting/monitoring of standing offer call-up activity. Management expects this recommendation to be complete by the end of Q4 2010.

Management: % complete **50%**

2005 Recommendation 16

That Supply Management regularly reviews the Standing Offer site to ensure that all information is up to date.

2005 Management Response

Management agrees with this recommendation. This process is now in place.

Management Representation of the Status of Implementation of Recommendation 16 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete *100%*

OAG's Follow-up Audit Findings regarding Recommendation 16

There is a recently developed procedure in place which assigns responsibility to team leaders for ensuring that documents on the standing offer site are current. Previously, every January the buyer reviews all existing SO and manually records upcoming expiry dates and advises responsible procurement officers of impending lapses. All 15 documents reviewed had a current effective date.

Recommendation has been 100% implemented.

OAG: % complete *100%*

2005 Recommendation 17

Supply Management should ensure that all purchasing activity is included in its report to Council, regardless of the source of the information or the means of acquisition and be presented in a clear and easily understood format.

2005 Management Response

Management agrees with the intent of this recommendation.

Management believes that the current reporting meets the standards established within the City Purchasing By-Law, which requires that Supply Management submit to Council on a quarterly basis the details of contracts in excess of \$25k which were awarded under delegated authority.

The recommendation here suggests an expansion beyond those works that are below \$25,000 or do not flow through Supply Management. This reporting is possible but not within existing resources as this additional requirement will require the on-going analysis of all other payment types, and may not provide the kind of information Council needs for financial oversight.

A much simpler and more cost effective approach would be for Accounts Payable to produce an annual listing of all vendors to whom payments totalling \$25,000 or more in aggregate were made, together with the total payments made for the year. SAP can readily produce such a report, however, the need to remove the numerous

non-discretionary payments such as those to other governmental levels, benefit service providers, pension plans, school boards, etc., to name but a few, and to portray the data in a meaningful manner, will require an additional administrative level of effort.

Management agrees that it is time to look at how reporting standards to Council for contracts and purchasing could be improved. Supply Management will investigate best-practice reporting for Council oversight and bring recommendations for improvement forward for the next term of Council.

Management Representation of the Status of Implementation of Recommendation 17 at December 31, 2008

Implementation of this recommendation is 100% complete.

At the October 2, 2006 meeting of CAWG, the following was clarified with respect to reporting to Council: that Supply Management should ensure that all purchasing activity (by type, more than \$25,000) is included in an annual report to Council, regardless of the source of the information or the means of acquisition and be presented in a clear and easily understood format. Reporting will be provided to the CSEDC and Council in conjunction with the existing Annual Report to Council that deals with several reporting requirements detailed in the Purchasing By-law. This approach was approved at Council on October 25, 2006.

Management: % complete **100%**

OAG's Follow-up Audit Findings regarding Recommendation 17

There is a recently formalized procedure to document the previously informal process. For payments without reference transactions, these include:

- Report created by Accounts Payable identifying all payments without reference that were done throughout the year.
- Each vendor is individually checked by the Supply Senior Team and sorted into a readable spreadsheet to determine if the payment without reference is compliant with the Purchasing By-law and then confirmed with appropriate FSU.
- Any items that are determined to be non-compliant are identified in the report and then discussed with the relevant department in order to obtain compliancy in the future.
- The report is completed by sorting the items by ascending dollar amount and calculating statistical totals for utilities/monopolies as well as non-compliant items.

The recommendation has been 100% implemented

OAG: % complete **100%**

2005 Recommendation 18

Supply Management should facilitate reporting by including specific fields in the Procurement Module to identify specific transaction types such as: Call-up against Standing Offers, Request for Quotation, Request for Tender, Request for Proposal, and Request for Standing Offer, Payments without Reference, etc.

2005 Management Response

Management agrees with this recommendation.

This upgrade to the Procurement Module in SAP would be a valuable addition to the data reporting capability, and Supply Management will initiate a working committee to include the IT Enterprise Application Management Division and the SAP Support Centre to investigate the possibility of implementing the suggested upgrades. This application will, however, undergo the same analysis and business case evaluation as all other Information Technology requests and be prioritized against all other requests.

Management Representation of the Status of Implementation of Recommendation 18 at December 31, 2008

Implementation of this recommendation is 100% complete. A new reference field has been added to the SAP Procurement module that allows much greater functionality, including the ability to conduct searches using a variety of criteria. Training has been provided to affected staff. The Auditor General indicated that this meets the intent of the recommendation, which was to provide Council with more information.

Management: % complete ***100%***

OAG's Follow-up Audit Findings regarding Recommendation 18

Supply Management confirmed that this detailed information is not a feature that could be easily made available in SAP. Subsequently a MS Access database process was developed to generate information reports on transactions produced via standing offers, RFPs, RFQs, RFSOs, and RFIs. The database can generate reports on bid solicitations, their status, and provide meaningful reports on the status of bid solicitations.

The electronic system keeps track of basic information, such as the file name, the type of file and the Purchasing Officer's name. The hard copy files contain all of the above information, as well as all original documents pertaining to the file, such as Request for Tenders or Quotations, and personal communication.

The intent of the recommendation has been 100% implemented.

OAG: % complete ***100%***

2005 Recommendation 19

Supply Management should ensure Payments without Reference to a Purchase Order are adequately monitored, in order to identify and include cases of non-compliance in regular reports to Council, and the City Manager, in order to minimize their occurrence.

2005 Management Response

Management agrees with the intent of this recommendation.

Management believes that a reasonable level of monitoring is currently in place. The expansion to 100% review as suggested will have resource implications.

The Finance Branch conducts on-going compliance reviews of all payments made by credit cards, petty cash and payment without reference to a purchase order, which are an essential component of the City's Financial Management Control Framework. The reports are provided to management as an information item. The Financial Services Branch and the involved parties deal with all cases of non-compliance.

To expand the reviews to 100% of all payments without reference in order to report on Standing Offers and non-compliance will require a significant increase in staffing requirements in Accounts Payable, as well as potentially expensive customization to the SAP application.

The implementation of this recommendation will be identified in the 2007 Departmental Business Plan and resources sought as part of the 2007 budget.

Management Representation of the Status of Implementation of Recommendation 19 at December 31, 2008

Implementation of this recommendation is considered 100% complete.

At the October 2, 2006 meeting of CAWG, the following was clarified with respect to reporting to Council: That Supply Management should ensure Payments without Reference to a Purchase Order (by type, more than \$25K are adequately monitored and included in an annual report, in order to identify and include cases of non-compliance in regular reports to Council, and the City Manager, in order to minimize their occurrence. Reporting will be provided to the CSEDC and Council in conjunction with the existing Annual Report to Council that deals with several reporting requirements detailed in the Purchasing By-law. This approach was approved at Council on October 25, 2006.

Management: % complete **100%**

OAG's Follow-up Audit Findings regarding Recommendation 19

As noted in recommendation 17, any items determined to be non-compliant during the review of PWR transactions by Supply Management are identified in the report

and then discussed with the relevant department in order to obtain compliancy in the future.

Recommendation has been 100% implemented

OAG: % complete *100%*

2005 Recommendation 20

That Supply Management ensure the quarterly reports to Council reflect the actual nature of the purchase. Program Managers may make corrections to errors only, rather than “editorialize” the description of what was purchased, which must remain as described in the Contract Approval Request.

2005 Management Response

Management agrees with this recommendation.

Corrections will be restricted to providing clarity to the description. This will be implemented immediately.

Management Representation of the Status of Implementation of Recommendation 20 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete *100%*

OAG’s Follow-up Audit Findings regarding Recommendation 20

The line description in the Q4 2008 report to Council matched the 25 files we reviewed and were accurate.

Recommendation has been 100% implemented.

OAG: % complete *100%*

2005 Recommendation 21

Supply Management should review their standard contract formats and clauses to remove duplication.

2005 Management Response

Management agrees with this recommendation.

This will be implemented by Q3 2006.

Management Representation of the Status of Implementation of Recommendation 21 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete *100%*

OAG's Follow-up Audit Findings regarding Recommendation 21

No duplication noted in terms and conditions reviewed other than supplemental clauses sent out for purchase of vehicles.

Recommendation has been 80% implemented.

OAG: % complete *80%*

Management Representation of Status of Implementation of Recommendation 21 as of Winter 2010

Management disagrees with the OAG's follow-up finding that implementation of this recommendation is only substantially complete.

In late summer 2009, a new vehicle acquisition tender was developed resolving any duplication of information issues. The new tender was reviewed by Supply, Fleet and Legal Services, and was implemented in October 2009. Management considers implementation of this recommendation to be complete.

Management: % complete *100%*

2005 Recommendation 22

Supply Management should not amend Terms and Conditions without the explicit approval of Risk Management

2005 Management Response

Management agrees with this recommendation.

This will be implemented immediately.

Management Representation of the Status of Implementation of Recommendation 22 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete *100%*

OAG's Follow-up Audit Findings regarding Recommendation 22

Senior procurement staff will accept non-standard clauses where a precedent has been established and approved by Legal in previous situations such as hardware and software vendors insisting on the use of their contract formats. Staff verifies specific situations with Legal Services and Risk Management after conferring with senior staff.

Recommendation has been 100% implemented.

OAG: % complete *100%*

2005 Recommendation 23

Supply Management and Financial Support Units should ensure Terms and Conditions are sent out with both Corporate and Departmental Purchase Orders, regardless of value, and their receipt and acknowledgement by suppliers kept on record.

2005 Management Response

Management disagrees with this recommendation.

Management believes that the process currently being followed is preferable to the recommendation.

Currently, all bid solicitation documents, Tender, Standing Offer, Proposal, etc, contain up to 40 standard terms and conditions (6 to 7 pages typically), designed by Purchasing, Risk Management, and Legal Services to protect the City from a number of perspectives. Issues addressed include Conduct of Work, Insurance, Indemnification and Liability, Workplace Safety, Occupational Health, MFIPPA, Conflict of Interest, Need for Confidentiality, Audit and Reporting Requirements, among others. Bidders, in their proposal or tender submission, are obligated (at the bidding stage, where the City clearly has leverage in that regard), to accept the City terms and conditions.

Once a vendor is selected as either the lowest responsive bidder, or best value proponent, a Purchase Order is issued. The Purchase Order includes, by direct reference, an order of precedence, which lists amongst other documents, the initial City bid document (which contains the complete legal terms and conditions), and the bidder response (which has accepted those conditions), within a legally acceptable validity period.

This approach, endorsed by the City's Legal Services Branch, appears to be appropriate and preferable to the collection of signed statements, which would occur after the award was determined, and the leverage of the City to impose sometimes onerous conditions on the vendor, may be reduced. Additionally the smaller Departmental Purchase Orders include a condensed version of the main legal terms and conditions, which print automatically in SAP, and are provided to the vendor.

Management Representation of the Status of Implementation of Recommendation 23 at December 31, 2008

Implementation of this recommendation is 100% complete. At its July 25, 2007 meeting, the Auditor General and CAWG agreed that Supply Management division be allowed to secure vendor agreement with the corporate terms and conditions in accordance with existing and revised procedures, which addresses the original intent of the audit recommendation. This item was approved at Council on November 14, 2007.

Management: % complete **100%**

OAG's Follow-up Audit Findings regarding Recommendation 23

While management initially disagreed with this recommendation, an agreement was reached with the OAG whereby a shortened version of key terms and conditions are sent out with both corporate and departmental purchase orders, regardless of value.

OAG: % complete **100%**

Recommendation 24

Supply Management should ensure that all Requests for Proposal contain a clause requiring bidders to certify that the rates offered are those offered to their best/most favoured client, and that this be subject to verification.

Management Response

Management agrees with this recommendation and will expand the recommendation to include all bid solicitation proposals.

This will be implemented by Q3 2006.

Management Representation of the Status of Implementation of Recommendation 24 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete **100%**

OAG's Follow-up Audit Findings regarding Recommendation 24

An appropriate clause has been included in Request for Proposal documents. Recommendation has been 100% implemented.

OAG: % complete **100%**

2005 Recommendation 25

Supply Management should work to integrate the Contract Approval Request within the Procurement Module of the Financial System.

2005 Management Response

Management disagrees with this recommendation.

The Contract Approval Request is an MS Word based template used to approve all contracts under delegated authority. The CAR, as it is known, flows well through the outlook e-mail function, and the timeline associated with contract approval, even at the highest levels of City management, is an impressively short one. Imbedding the CAR "Word" document in SAP would not be cost-effective.

Management Representation of the Status of Implementation of Recommendation 25 at December 31, 2008

Implementation of this recommendation is 100% complete. This recommendation was discussed at CAWG on February 25, 2008 and was approved by Council on April 23, 2008. Financial Services has made the CAR an official business record within the City's records management system. This leverages the City's implementation of electronic enterprise records management without adding to the limited SAP physical resources. In addition, further information was provided to the Auditor General as to which pieces of data found on the CAR are currently stored in SAP. Management believes this addresses the recommendation's intent to save the CAR as evidence of the appropriate authority.

Management: % complete ***100%***

OAG's Follow-up Audit Findings regarding Recommendation 25

While Management disagreed with this recommendation, CAWG accepted on February 25, 2008 that an alternative solution to incorporation of CAR in SAP had been achieved by "making CAR an official business record".

OAG: % complete ***100%***

4 SUMMARY OF THE LEVEL OF COMPLETION

The table below outlines our assessment of the level of completion of each recommendation as of Fall 2009.

CATEGORY	% COMPLETE	RECOMMENDATIONS	NUMBER OF RECOMMENDATIONS	PERCENTAGE OF TOTAL RECOMMENDATIONS
LITTLE OR NO ACTION	0 – 24	-	-	-
ACTION INITIATED	25 – 49	15	1	4%
PARTIALLY COMPLETE	50 – 74	6, 7, 8	3	12%
SUBSTANTIALLY COMPLETE	75 – 99	21	1	4%
COMPLETE	100	1, 2, 3, 4, 5, 9, 10, 11, 12, 13, 14, 16, 17, 18, 19, 20, 22, 23, 24, 25	20	80%
TOTAL			25	100%

5 CONCLUSION

As a result of some initiatives within the City, there have been some Council approved amendments to Purchasing By-law 50 since the 2005 audit. The thresholds for standing offers have been increased to \$150,000, the limits for sole sourcing have been increased, and a standard price component for some

contracting activities has been established, and this affects some of the initial recommendations.

In the file review associated with the follow-up of progress against the original recommendations, there were no material issues identified.

There are still some issues related to specific standing offers and their overall management - Engineering Services and Translation, where allocation of work based on cost or "ranking" of proponents is not being done, and work continues to be concentrated.

Significant progress has been made in implementing all but one of the original recommendations and this has resulted in better overall control.

6 ACKNOWLEDGEMENT

We wish to express appreciation to the staff and management for their cooperation and assistance throughout the audit process.

