



Office of the Auditor General / Bureau du vérificateur général

**FOLLOW-UP TO THE 2007 AUDIT OF THE PROCUREMENT
OF FAX MACHINES**

2009

**SUIVI DE LA VÉRIFICATION DE L'ACQUISITION DE
TÉLÉCOPIEURS DE 2007**

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EXECUTIVE SUMMARY

Introduction

The Follow-up to the 2007 Audit of the Procurement of Fax Machines was included in the Auditor General's 2009 Audit Plan.

The key findings of the original 2007 audit included:

- The City should consider purchasing fax machines rather than renting them to achieve cost savings. The City also needs to establish better control over its inventory of fax machines. The City has no up-to-date inventory with sufficient detail to facilitate cost-benefit analysis and confirmation of rates charged. The existing cost-benefit analysis of fax machines did not consider the longer-term cost savings of purchasing rather than leasing fax machines.
- There is no standing offer in place to purchase fax machines.
- The audit identified other opportunities for improvement to ensure the City has been properly invoiced and seeks refunds of any amounts overcharged; and the roles and responsibilities with respect to fax machines are appropriately segregated.

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	3b	1	20%
ACTION INITIATED	25 – 49	-	-	-
PARTIALLY COMPLETE	50 – 74	-	-	-
SUBSTANTIALLY COMPLETE	75 – 99	2	1	20%
COMPLETE	100	1, 3a, 4	3	60%
TOTAL			5	100%

Conclusion

Information Technology Services has assumed responsibility for the inventory of fax machines as well as the ordering, receiving and payment of individual units. Within Financial Services, Supply Management Division remains responsible for the procurement, i.e., the putting in place or accessing of Standing Offer Agreements put in place by other levels of government against which individual orders are made.

On the Information Technology website the department clearly states that it has assumed responsibility for fax machines and maintains information on the web that guides City staff in the process developed to acquire new technology including fax machines.

Additionally, the ITS department is in the process of developing a “print strategy” to identify cost efficiencies. This involves assessing present spending on imaging devices on three floors at 100 Constellation, and from this data, determining the magnitude of efficiencies that can be gained.

While the inventory of fax machines within the City is not 100% up to date, as we located non-inventoried items as we conducted our audit work, we do note that fax machines, unlike computing equipment, are difficult to track as they are easily moved, not on a network and can be purchased on low dollar purchase order, making a totally accurate and up-to-date inventory difficult to achieve and maintain. Because they are easily moved, it is more important to maintain accurate inventories and improve the process.

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 de l'acquisition de télécopieurs de 2007 était prévu dans le Plan de vérification du Bureau du vérificateur général de 2009.

Les constatations principales de la vérification initiale de 2007 sont les suivantes :

- La Ville devrait envisager d'acheter des télécopieurs plutôt que de les louer afin de réaliser des économies de coûts. Elle doit également assurer un meilleur contrôle de son inventaire de télécopieurs. La Ville ne tient aucun inventaire à jour qui soit suffisamment détaillé pour faciliter la réalisation d'une analyse coûts-avantages et vérifier l'exactitude des taux facturés. L'analyse coûts-avantages existante des télécopieurs ne tient pas compte des économies qui peuvent être réalisées à plus long terme si les télécopieurs sont achetés plutôt que loués.
- La Ville ne dispose d'aucune offre à commandes pour l'achat de télécopieurs.
- La vérification a cerné d'autres possibilités d'amélioration qui permettraient à la Ville de s'assurer que les factures reçues sont justes et qu'elle se fait rembourser toute somme perçue en trop; et que les rôles et les responsabilités relativement aux télécopieurs sont assumés par des fonctions distinctes.

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	3b	1	20 %
ACTION AMORCÉE	25 - 49	-	-	-
COMPLÉTÉE EN PARTIE	50 - 74	-	-	-
PRATIQUEMENT COMPLÉTÉE	75 - 99	2	1	20 %
COMPLÉTÉE	100	1, 3a, 4	3	60 %
TOTAL			5	100 %

Conclusion

Les Services de technologie de l'information ont assumé la responsabilité de l'inventaire des télécopieurs ainsi que de la commande, de la réception et du paiement de chaque machine. Dans les Services financiers, la Division de la gestion de l'approvisionnement demeure chargée de l'acquisition, c'est-à-dire de la mise en

place d'accords d'offre à commandes ou de leur accès, établies par d'autres paliers gouvernementaux sur lesquelles des commandes individuelles sont passées.

Sur son site Web, les Services de technologie de l'information stipulent clairement qu'ils ont assumé la responsabilité des télécopieurs et ils tiennent à jour sur le Web, les renseignements qui guident le personnel pour le processus élaboré en vue d'acquérir des nouvelles technologies, y compris les télécopieurs.

De plus, les Services de TI est en train d'élaborer une « stratégie d'impression » afin de déterminer les économies de coûts, ce qui comprend l'évaluation des dépenses actuelles relativement à des dispositifs de formation d'images situés sur trois étages du 100, Constellation et, à partir de ces données, la détermination de l'ampleur des économies pouvant être réalisées.

Bien que l'inventaire des télécopieurs de la Ville ne soit pas complètement à jour, puisque nous avons localisé des machines non inventoriées lors de notre travail de vérification, nous avons remarqué qu'il est difficile d'assurer le suivi des télécopieurs, contrairement au matériel informatique, car ils sont facilement déplacés, ne sont pas branchés à un réseau et peuvent être achetés à l'aide de bons de commande de faible valeur, ce qui rend difficile de réaliser et de maintenir un inventaire parfaitement exact et à jour. Puisqu'ils sont facilement déplacés, il est d'autant plus important de maintenir des inventaires exacts et d'améliorer le processus.

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 2007 Audit of the Procurement of Fax Machines was included in the Auditor General's 2009 Audit Plan.

The key findings of the original 2007 audit included:

- The City should consider purchasing fax machines rather than renting them to achieve cost savings. The City also needs to establish better control over its inventory of fax machines. The City has no up-to-date inventory with sufficient detail to facilitate cost-benefit analysis and confirmation of rates charged. The existing cost-benefit analysis of fax machines did not consider the longer-term cost savings of purchasing rather than leasing fax machines.
- There is no standing offer in place to purchase fax machines.
- The audit identified other opportunities for improvement to ensure the City has been properly invoiced and seeks refunds of any amounts overcharged; and the roles and responsibilities with respect to fax machines are appropriately segregated.

2 KEY FINDINGS OF THE ORIGINAL 2007 AUDIT OF THE PROCUREMENT OF FAX MACHINES

1. There was no standing offer set up to purchase fax machines.
2. There is a standing offer set up to rent fax machines which indicates the benefits of renting versus buying, however the analysis provided did not consider years four and five which could result in potential savings of rental payments of \$182,000 which could be used to purchase new machines as required.
3. There was no up-to-date inventory maintained by the City of fax machines with sufficient detail to facilitate cost-benefit analysis and confirmation of rates charged.
4. There were examples of 18 fax machines installed in 2001 and 2002 where monthly rental payments continued to be charged past the 36-month period.
5. Most of the duties relating to fax machines appear to have been performed by one individual in Supply Management Division.
6. There appeared to be too much reliance on the supplier to track the fax machines rented.

3 STATUS OF IMPLEMENTATION OF 2007 AUDIT RECOMMENDATIONS

2007 Recommendation 1

That Financial Services Branch perform and document a complete cost-benefit analysis for years one to five as evidence of best value as required in the Purchasing By-law to support the options of buying and renting fax machines and all other procurements.

2007 Management Response

Management agrees with this recommendation.

A comprehensive cost-benefit analysis to determine best value in the procurement of fax machines will be undertaken by Financial Services in Q1 2008.

However, there is no evidence that cost savings would result from either purchasing the equipment or renting the equipment for more than a three-year period. The City takes advantage of the Ontario Vendor of Record Standing Agreement VOR-1012 entitled "Digital Multi-Functional Devices/Photocopiers and Facsimile Equipment and Services". This Provincial offer allows for both the purchase and rental of the equipment, however in keeping with industry standards, it does not include a five-year rental option. In addition, the City takes advantage of the opportunity to purchase fax machines through the Government of Canada National Master Standing Order ECO95-040002-001/MCT for Brother International Fax Equipment. Similarly, the extended warranty option which can be obtained for a fixed cost on purchased fax machines, is available in years two and three, but not beyond that term.

The Audit indicates that the City sometimes justified a higher priced rental option over the purchase of a "comparable unit", due to it "having more features". Management does not agree that a unit with a speed of 21 ppm (prints per minute), and a 32 Mb memory, is a "comparable unit" to one having a speed of 5ppm and a base memory of only 2 Mb.

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

There was a five-year analysis of the cost benefit of renting versus buying completed in Q1 of 2008 and a subsequent business case presented to the Information Technology Services department Value Assessment Panel (VAP), in October 2008, where it was agreed to buy out the lease for \$235,000.

The audit recommendation has been 100% completed.

OAG: % complete

100%

2007 Recommendation 2

That Financial Services Branch update and maintain the inventory of fax machines to facilitate ongoing renting and purchasing decisions relating to fax machines and to properly control fax machines.

2007 Management Response

Management agrees with this recommendation.

Information Technology Services will assume responsibility for the inventory and the determination of cost effective and efficient standards for fax machines in Q3 2008.

The Audit indicates that the decision to replace all units in August 2007 with new units and agreements “appeared to be driven by the supplier”. This observation is incorrect, Supply Management Division challenged the vendor to find a method to maximize cost savings, enhance dependability with newer technology, standardize agreements with consistent terms, and reduce administrative effort. The resulting proposal from the local vendor authorized on the Provincial standing offer exceeded all City objectives. The rental rate per month from the standing offer was reduced specifically for the City of Ottawa to \$20 a month (on 84 units), a savings of 23% over published, and competitive rates (similar savings applied to other models included in this replacement) and resulted in savings over a three-year period amounting to a minimum of \$81,144. The most meaningful benefit was the quarterly system-wide billing whereby one invoice is received for all units. This enhances our ability to verify and ensure correct invoicing and results in significant administrative savings for the central management of fax machines.

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

Implementation of this recommendation is 100% complete.

Management: % complete

100%

OAG’s Follow-up Audit Findings regarding Recommendation 2

Responsibility for the inventory of fax machines has been transferred from Supply Management to ITS department. There are actually three inventories maintained by the Information Technology Services (ITS) department. One for the Pitney Bowes machines purchased to replace the rental agreement, one for Panafax machines still under a lease agreement and one for new Brother machines purchased from Toshcan Sales. Inventory data provided by Supply Management for the Panafax machines was updated by the Information Technology Services department

through calling each contact to ensure the machines were still active, given that these were still being leased.

Additionally, the ITS department is in the process of developing a “print strategy” to identify efficiencies in cost. This involves assessing present spending on imaging devices on three floors at 100 Constellation, and from this data, determining the magnitude of efficiencies that can be gained.

While all machines on the inventory listings were accounted for, we did note, as we were shown the physical machines by those staff “holders”, that there were two Brother machines not on the inventory. One machine was a new delivery and the records had not yet been updated, while the other was a Brother machine purchased approximately ten years ago but the vendor was able to provide records. We were advised that these machines will be added to the inventory shortly.

We were also shown a Hewlett Packard fax machine, which may have been a multi-purpose machine incorrectly identified as a fax.

We do note that fax machines, unlike computing equipment, are difficult to track as they are easily moved, not on a network and can be purchased on low dollar PO making a totally accurate and up to date inventory difficult to achieve and maintain. Because they are easily moved, it is more important to maintain accurate inventories and improve the process.

OAG: % complete *80%*

Management Representation of Status of Implementation of Recommendation 2 as of Winter 2010

Management agrees with the OAG's follow-up audit finding. The Information Technology Services (ITS) department is capturing inventory information for all purchases made since they took over responsibility for ordering fax machines. ITS is also keeping an active inventory of the Panafax machines still under a lease agreement to ensure billing accuracy. A complete physical scan of all City locations will be undertaken as part of the go-forward multi-year print strategy being developed. The multi-year print strategy includes a scan of all printers, photocopiers and fax machines, which is expected to be complete by Q3 2010.

Management: % complete *80%*

2007 Recommendation 3

- a) That Financial Services Branch ensure that the City is properly invoiced in accordance with the standing offer.
- b) That Financial Services Branch review prior invoices for fax machines to ensure that the City was properly charged and request any amounts

2007 Management Response

Management agrees with both of these recommendations.

Financial Services will assign responsibility for receipt and payment of invoices to the Financial Support Unit (FSU) for verification prior to payment. With the August 2007 fax machine update, staff reinforced to the vendor that all future bills must be accurate, and the descriptions of fax equipment, and rationale for rates being billed, must be complete, or payment would be withheld. The overpayment of \$264 identified in the report has been returned to the City by the vendor.

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

Implementation of this recommendation is 100% complete.

<i>Management: % complete</i>	<i>100%</i>
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OAG's Follow-up Audit Findings regarding Recommendation 3

- a) For the one lease still in effect for the supply of Panafax machines, the IT Clerk in Technology Infrastructure does a line-by-line reconciliation to confirm that each machine on the invoice is charged out at the price stipulated on the Master Inventory listing.
- b) Supply Management conducted a review of invoices against serial numbers for the 34 sample machines originally reviewed in 2007. They arrived at a value of \$264 to be reimbursed from the supplier. Supply Management (SM) was able to demonstrate that the \$264 had been credited to the City. The intent of the recommendation was that SM conduct the same review for all machines on the standing offer to ensure there were no additional overcharges. The reconciliation for the other machines has not been done. This means that SM has reviewed invoices for only 34 of the 210 machines from the standing offer.

<i>OAG: % complete (a)</i>	<i>100%</i>
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<i>OAG: % complete (b)</i>	<i>20%</i>
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Management Representation of Status of Implementation of Recommendation 3 as of Winter 2010

Management disagrees with the OAG's follow-up audit finding that there has been little or no action taken to implement this recommendation. Management did not interpret the intent of the original recommendation to also include a review of the remaining machines outside of the original sample. When Supply Management assessed the sample of 34 machines, it reconciled to the information contained in the Pitney Bowes mainframe system with regard to machine configurations, optional equipment and original installation dates. Pitney Bowes has informed Supply Management that this information is no longer available in their mainframe making it very difficult and labour intensive to confirm the additional billing information. At this time, it is the opinion of Supply Management that the effort

and cost to verify the additional billing information would significantly exceed any savings as demonstrated by the sample audit. Management considers implementation of this recommendation to be complete.

Management: % complete (b) 100%

2007 Recommendation 4

That Financial Services Branch ensure the roles and responsibilities with respect to fax machines are handled by the appropriate department, branch, or division.

2007 Management Response

Management agrees with this recommendation.

Information Technology Services will assume responsibility for the inventory and the determination of cost effective and efficient standards for fax machines in Q3 2008. Within Financial Services, Supply Management Division will remain responsible for the procurement and the FSU will be responsible for payment.

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

Information Technology Services has assumed responsibility for the inventory of fax machines as well as the ordering, receiving and payment of individual units. Within Financial Services, Supply Management Division remains responsible for the procurement, i.e., the putting in place or accessing of Standing Offer Agreements put in place by other levels of government against which individual orders are made.

On the Information Technology website the department clearly states that it has assumed responsibility for fax machines and maintains information on the web that guides City staff in the process developed to acquire new technology including fax machines.

The audit recommendation has been 100% completed.

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	3b	1	20%
ACTION INITIATED	25 – 49	-	-	-
PARTIALLY COMPLETE	50 – 74	-	-	-
SUBSTANTIALLY COMPLETE	75 – 99	2	1	20%
COMPLETE	100	1, 3a, 4	3	60%
TOTAL			5	100%

5 CONCLUSION

Information Technology Services has assumed responsibility for the inventory of fax machines as well as the ordering, receiving and payment of individual units. Within Financial Services, Supply Management Division remains responsible for the procurement, i.e., the putting in place or accessing of Standing Offer Agreements put in place by other levels of government against which individual orders are made.

On the Information Technology website the department clearly states that it has assumed responsibility for fax machines and maintains information on the web that guides City staff in the process developed to acquire new technology including fax machines.

Additionally, the ITS department is in the process of developing a “print strategy” to identify cost efficiencies. This involves assessing present spending on imaging devices on three floors at 100 Constellation, and from this data, determining the magnitude of efficiencies that can be gained.

While the inventory of fax machines within the City is not 100% up to date, as we located non-inventoried items as we conducted our audit work, we do note that fax machines, unlike computing equipment, are difficult to track as they are easily moved, not on a network and can be purchased on low dollar purchase order, making a totally accurate and up-to-date inventory difficult to achieve and maintain. Because they are easily moved, it is more important to maintain accurate inventories and improve the process.

6 ACKNOWLEDGEMENT

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