



Office of the Auditor General

**AUDIT OF THE PROCUREMENT
PROCESS**

2005 REPORT

Chapter 4

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EXECUTIVE SUMMARY

Introduction

The Audit of the Procurement Process was part of the 2005 audit plan brought forward by the City's Auditor General and received by Council on December 15, 2004.

Background

At the City of Ottawa, the Supply Management Division is responsible for conducting centralized procurement and contracting activities. Financial Support Units and the different departments are responsible for decentralized procurements and the use of procurement cards.

In 2004, Purchase Orders were issued for a total value of \$437 million: \$381 million through Corporate Purchase Orders and \$56 million as Departmental Purchase Orders. Additionally, approximately 980 Purchasing Cards, including those used by the Ottawa Police Service, are active, and expenditures were \$10.5 million in 2004.

Audit Objectives

The objectives of this audit were to provide an independent and objective assessment to:

- Ensure that appropriate processes are in place to track, manage and control procurement and contracting carried out by City employees.
- Provide assurance that procurement and contracting activities comply with established policy and procedures; that they limit the City's exposure to risk, and to identify mitigating strategies when appropriate and to identify best practices.
- Determine whether procurement achieves value for money.
- Determine whether recommendations in the 2003 Audit of the Corporate Card and Purchasing Card Programs have been implemented and are operating as intended.

Audit Scope

The scope of the audit included an examination of the City's contracting policy, management practices, internal controls, and procedures pertaining to contracting and procurement, including Purchasing Cards, and their compliance with established policies and procedures. The audit reviewed procurement and contracting activities carried out in 2004 in all departments, including the Ottawa Police Service.

In addition to contracting and procurement, files relating to purchases made using Payments without Reference to a Purchase Orders were reviewed.

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.

Recommendations and Management Responses

Recommendation 1

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

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.

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.

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.

Recommendation 3

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

Management Response

Management disagrees with this recommendation.

Amendments to contracts are typically in light of unforeseen changes in scope, and are scrutinized closely, in both the operating department and by Purchasing, with a view to ensuring that fair value is received by the City. The current approval process includes both the Manager of Supply Management and level 2 approval of either the Chief Corporate Services Officer or Deputy City Manager, and continues to be appropriate.

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.

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.

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%.

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.

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.

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.

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”.

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.

Recommendation 8

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

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.

Recommendation 9

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

Management Response

Management agrees with this recommendation.

This will be implemented by Q3 2006.

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.

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.

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).

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.

Recommendation 12

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

Management Response

Management agrees with this recommendation.

This will be implemented immediately.

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.

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.

Recommendation 14

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

Management Response

Management agrees with this recommendation.

This will be implemented by Q3 2006.

Recommendation 15

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

Management Response

Management agrees with this recommendation.

This will be implemented by Q2 2006.

Recommendation 16

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

Management Response

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

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.

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.

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.

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 Center 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.

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.

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.

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.

Management Response

Management agrees with this recommendation.

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

Recommendation 21

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

Management Response

Management agrees with this recommendation.

This will be implemented by Q3 2006.

Recommendation 22

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

Management Response

Management agrees with this recommendation.

This will be implemented immediately.

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.

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.

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.

Recommendation 25

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

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.

General Management Response:

In most instances staff are in agreement with the recommendations and where there is a difference of viewpoint further comments have been provided.

Throughout the audit of procurement, Supply Management Division was involved in many discussions, which led to the recommendations contained herein, many of which run parallel to the objectives of Purchasing within the City.

The focus of the recommendations on reporting completeness, and process improvement, is recognition that there was an absence of more high profile errors in contracting which is very positive.

Since amalgamation the involvement of Purchasing in City contracts has risen from the 2001 baseline of \$484.5 million, to a 2005 level which exceeded \$1 billion. The processes and procedures implemented since 2001 have added value and ensured a consistent purchasing approach with valuable controls for the vast majority of City spending.

A number of the recommendations contained herein would add considerably to the level of effort needed within Purchasing, and will be analyzed in relation to the value added to the current state. In order to implement all recommendations it is anticipated that Purchasing would need an additional four FTE's, one clerical, one buyer, and two purchasing officers, at an estimated total cost of \$273k annually, along with a one time set-up cost of about \$100k. Additional resources will also be required in the Accounting area if all recommendations regarding reporting were implemented.

Management will be examining where efforts could be refocused, as in the case of reporting, to minimize costs while enhancing the information. The implementation of these efforts will be identified in the 2007 Departmental Business Plan and resources sought as part of the 2007 budget.

Conclusion

Current processes and procedures provide Council a reasonable level of assurance that contracting activities are in compliance with City policy.

Overall there are opportunities to effect operational improvements in reporting and to enhance value for money through increasing the price component in contracting, utilizing more appropriate methodologies in evaluating price submissions and more effective management of Standing Offers.

The Supply Management Division must fully exercise their control responsibilities to ensure all of the recommendations are implemented.

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

RÉSUMÉ

Introduction

La vérification du processus d'acquisition faisait partie du plan de vérification 2005 soumis par le vérificateur général de la Ville et reçu par le Conseil municipal le 15 décembre 2004.

Contexte

La Division de la gestion des approvisionnements de la Ville d'Ottawa est responsable des activités des contrats et d'acquisition centralisée. L'Unité des services financiers et les différents services sont responsables des acquisitions décentralisées et de l'utilisation des cartes d'achats.

En 2004, la valeur totale des bons de commande émis a atteint 437 millions de dollars, soit 381 millions de dollars en bons de commande centralisés et 56 millions de dollars de bons de commande décentralisés. En outre, environ 980 cartes pour petits achats étaient actives, y compris les cartes d'achats du Service de police, et les dépenses se chiffraient à 10,5 millions de dollars en 2004.

Objectifs de la vérification

La présente vérification vise à offrir une évaluation objective et indépendante pour :

- s'assurer qu'il existe des procédures adéquates de suivi, de gestion et de contrôle des contrats et des acquisitions faites par les employés de la Ville;
- s'assurer que les activités d'acquisition et de contrats respectent la politique et les procédures établies, qu'elles limitent l'exposition au risque de la Ville, qu'elles déterminent des stratégies d'atténuation et qu'elles recensent les pratiques exemplaires;
- déterminer si l'acquisition optimise les ressources;
- déterminer si les recommandations formulées lors de la vérification des programmes des cartes d'achat et des cartes corporatifs de 2003 ont été mises en œuvre et si elles produisent les résultats attendus.

Portée de la vérification

La portée de la vérification prévoit un examen de la politique d'impartition, des pratiques de gestion, des contrôles internes et des procédures relatives à l'acquisition et aux contrats de la Ville, ce qui comprend les cartes d'achats, et de leur conformité aux politiques et aux procédures établies. La vérification a permis d'examiner les activités d'acquisition et de contrats réalisées en 2004 par tous les services, y compris le Service de police.

Outre l'acquisition et les contrats, les dossiers concernant les achats faits à l'aide de paiements sans renvoi à un bon de commande ont également fait l'objet d'un examen.

Principales constatations

1. En ce qui concerne les activités sous l'autorité directe de la Gestion des approvisionnements, la vérification a révélé que le nombre d'infractions matérielles était relativement faible.

En vertu du règlement, tous les contrats supérieurs à 10 000 \$ doivent être traités par le personnel de la Gestion des approvisionnements. Une fonction du système financier de la Ville force l'autorisation des transactions supérieures à 10 000 \$ par la Gestion des approvisionnements.

Une demande d'approbation des contrats a été instaurée et elle s'inspire d'une approche axée sur le risque pour examiner les demandes d'achat. Plus la valeur du contrat est élevée, plus il est important de soumettre la demande à l'examen et à l'approbation de la haute direction. Il s'agit d'une étape importante de la reddition des comptes et du contrôle de gestion. Toutefois, la demande d'approbation des contrats devrait être intégrée dans le modèle d'acquisition du système financier.

2. Il faut améliorer la procédure générale de communication de rapports au Conseil. Il est difficile d'extraire du système financier la valeur exacte des contrats acquis au moyen de bons de commande ou de paiement sans renvoi à un bon de commande. Les renseignements sur ces transactions ne sont pas transmis intégralement au Conseil.

Des mesures ont été prises pour améliorer la qualité, l'exhaustivité et la pertinence des renseignements, mais d'autres changements s'avèrent nécessaires pour mettre en œuvre des procédures de suivi et de production de rapports sur la conformité et le rendement des activités de contrats. Le format pourrait tirer avantage d'un résumé de haut niveau et mettre en évidence les principales attentes envers la politique et la procédure, particulièrement si elles concernent l'utilisation inappropriée des paiements sans renvoi. Dans le but d'améliorer le caractère opportun des rapports, il faut simplifier la procédure de révision et de modification pour réduire le nombre de changements apportés à la nature des biens ou des services achetés.

3. Le choix de la méthode d'évaluation des propositions ne reflète pas toujours les écarts de prix. Cela signifie que des primes considérables peuvent être versées pour des propositions ayant de légères différences sur le plan de la qualité. Par exemple, nous avons découvert que des propositions avaient reçu un pointage identique pour le prix, alors que la première se chiffrait à 140 000 \$ et que l'autre

totalisait 70 000 \$. Il faut modifier la méthode d'évaluation des prix afin que les points attribués reflètent clairement les écarts de prix.

4. Il est possible d'améliorer l'optimisation des ressources en haussant de 15 % à 30 % la composante du prix dans les demandes de propositions, y compris les demandes d'offre à commandes, à condition que la méthode d'évaluation soit modifiée, tel qu'il a été indiqué précédemment. Ces pratiques pourraient engendrer d'importantes économies de coûts. Par exemple, selon les estimations de la Gestion des approvisionnements concernant l'attribution de 12 contrats pour travaux d'ingénierie d'une valeur de 5,2 millions de dollars au cours de l'été 2005, une hausse de 30 % de la composante du prix des propositions et la modification de la méthode d'évaluation auraient pu donner lieu à des économies de coûts de 580 000 \$. Il s'agit d'économies possibles et considérables, particulièrement dans le domaine des services techniques qui coûtent approximativement 40 millions de dollars chaque année.
5. Une meilleure gestion des offres à commandes rehausserait l'équité et la transparence et augmenterait la valeur. Actuellement, les offres à commandes sont attribuées à un nombre relativement élevé de fournisseurs, mais le travail est confié à quelques entreprises avec peu d'égard pour les écarts de prix. Cela signifie que des primes peuvent être versées pour du travail de même qualité et que le travail n'est pas attribué d'une manière ouverte, juste et transparente.

Nous avons aussi découvert certains secteurs qui pourraient recourir aux offres à commandes. Nous avons observé plusieurs exemples probants pour lesquels les Services du parc automobile ont accumulé un coût total d'acquisition d'une valeur supérieure à 250 000 \$ avec une même entreprise sans employer d'offres à commandes. Des achats de pièces automobiles d'une valeur minimale de 2 millions de dollars et de services d'une valeur de 4 millions de dollars ont été faits sans utiliser d'offres à commandes et sans songer à l'obtention possible de rabais. Il faut mettre en place des offres à commandes pour ces articles qui ont peu de valeur, mais qui sont achetés fréquemment.

6. Les cartes d'achats sont habituellement bien gérées avec la mise en place d'une procédure bien définie pour l'acquisition et le paiement de biens et de services de faible valeur. Presque toutes les recommandations concernant les cartes d'achats formulées lors de la vérification des programmes des cartes d'achat et des cartes corporatives de 2003 ont été mises en œuvre et elles produisent les résultats attendus. Toutefois, certains ordinateurs sont encore achetés avec des cartes d'achats, ce qui va à l'encontre des recommandations de la vérification de 2003.
7. Des paiements sans renvoi sont faits pour des biens ou des services acquis sans bon de commande, sans la participation de la Gestion des approvisionnements. La vérification a révélé que ce type de transaction affichait des taux élevés de non-conformité de la politique et de la procédure existantes.

Ces transactions ne sont pas surveillées adéquatement et ne sont pas incluses dans les rapports remis au Conseil par la Gestion des approvisionnements. De plus, aucun rapport d'exception sur les paiements sans renvoi n'est préparé actuellement pour le directeur des services municipaux dans le but d'en réduire au minimum la fréquence.

8. La Gestion des approvisionnements ou les directeurs renoncent parfois aux modalités contractuelles standard sans consulter la Gestion des risques, ce qui expose la Ville à un risque plus important que prévu.
9. Les modifications peuvent donner lieu à des situations pour lesquelles les contrats à fournisseur unique dépassent la limite de 50 000 \$ prescrite par le règlement. En outre, les modifications pour les travaux de suivi peuvent faire augmenter considérablement la valeur des projets jusqu'à plusieurs fois la portée originale de l'initiative.

Recommandations et réponses de la direction

Recommandation 1

La Gestion des approvisionnements ne devrait traiter aucun contrat de biens ou de services déjà attribué ou en cours d'exécution.

Réponse de la direction

La direction accepte la recommandation.

La direction ne sanctionne pas le traitement des contrats « après coup » quand les services d'achat n'ont pas pris part adéquatement à la procédure.

Cette recommandation est clairement supportable, mais, sans une participation des services d'achat, aucun bon de commande ne peut être émis. Dans le SAP, cela restreint l'outil de paiement au « paiement sans renvoi », ce qui n'est malheureusement pas toujours une solution acceptable. Certains contrats, et même ceux amorcés hors des services d'achat, exigent de ces mêmes services d'achat qu'ils trouvent une façon de les soutenir pour permettre l'attribution du contrat du bon de commande. La Direction des systèmes informatiques évaluera le coût de suppression de cette limite du SAP au cours du deuxième trimestre de 2006.

Recommandation 2

La valeur totale d'un contrat à fournisseur unique ne devrait pas dépasser 50 000 \$ (modifications incluses) sans l'approbation du directeur des services municipaux.

Réponse de la direction

La direction est d'accord avec l'objectif de la recommandation.

Les services d'achat de la Ville déconseillent fortement l'attribution de contrats à fournisseur unique, même si cette pratique est autorisée dans le *Règlement municipal sur les marchés* à certaines conditions. Environ 10 % de tous les achats sont faits auprès d'un fournisseur unique, ce qui correspond aux pratiques exemplaires dans l'ensemble de l'activité économique. On effectue des modifications lorsqu'il y a des changements de portée et lorsqu'il serait improductif de soumettre les travaux supplémentaires à un appel d'offres. La direction étudiera le besoin d'établir d'autres seuils de modifications et, si nécessaire, donnera suite aux modifications du règlement sur les marchés.

La direction n'appuie pas le fait que ce soit le directeur des services municipaux qui approuve les contrats à fournisseur unique de plus de 50 000 \$ et croit que le niveau de diligence raisonnable actuel, qui se caractérise par une étude du chef des services généraux ou du directeur municipal adjoint au besoin, suffira.

Recommandation 3

La Gestion des approvisionnements devrait s'assurer que la valeur totale des modifications de la portée du travail d'un contrat n'excède pas la moitié du montant initial de ce contrat sans l'autorisation du directeur des services municipaux.

Réponse de la direction

La direction rejette la recommandation.

Les modifications apportées aux contrats s'expliquent généralement par des changements de portée imprévus et sont analysées de près par le Service et le Service de l'approvisionnement, qui font en sorte que la Ville profite de la juste valeur du marché. Le processus d'approbation actuel comprend le gestionnaire des approvisionnements et l'approbation de niveau 2, soit du chef des services généraux ou du directeur municipal adjoint et demeure justifié.

Recommandation 4

La Gestion des approvisionnements devrait adopter des méthodes d'évaluation qui reflètent mieux les écarts de prix des propositions de services professionnels, comme l'écart-type, la soumission moins-disante ou le prix par point.

Réponse de la direction

La direction accepte la recommandation.

La méthode recommandée est utilisée actuellement pour la majorité des contrats, alors que la méthode de référence moyenne sert aux services d'ingénierie. La direction examinera l'utilisation d'une méthode qui reflète mieux les écarts de prix. Cette initiative commencera pendant le deuxième trimestre de 2006, de concert avec la recommandation 5.

Recommandation 5

La Gestion des approvisionnements devrait veiller à ce que la composante du prix des demandes de propositions de services professionnels soit normalisée immédiatement à un niveau minimal de 30 %.

Réponse de la direction

La direction est d'accord avec l'objectif de la recommandation.

Actuellement, la pondération de la composante du prix dépend du type de service professionnel à impartir. Dans bien des cas, cette composante du prix est, en fait, supérieure à 30 %. Notre expérience nous a appris l'importance d'une grande flexibilité. Il s'agit d'un secteur souvent examiné par le personnel. Au fil des ans, la pondération de ce facteur est passée de 0 % (sans importance) à un minimum de 15 %. L'un des secteurs préoccupants sur le plan de la fixation d'un minimum de 30 % est celui des études et des services de conception de l'infrastructure.

La direction a étudié le seuil de la composante du prix selon les pratiques utilisées par d'autres municipalités et ministères du Canada. Les résultats de cette étude démontrent que 20 % est un seuil courant pour la conception de l'infrastructure et l'ingénierie, et la Ville adoptera ce seuil immédiatement. Il est à noter qu'une initiative visant à établir des pratiques exemplaires d'acquisition de services techniques vient d'être entreprise par InfraGuide (Guide national pour des infrastructures municipales durables), dont le Conseil a adopté les principes directeurs en 2003. InfraGuide prévoit publier son rapport provisoire en mars 2006 pour recueillir des commentaires. À ce moment-là, la direction examinera les résultats avec le vérificateur général pour voir s'il faut effectuer d'autres changements pour optimiser les ressources de la Ville lors de l'achat de services d'ingénierie.

Recommandation 6

La Gestion des approvisionnements devrait veiller à ce qu'un nombre raisonnable d'entreprises obtiennent des offres à commandes et utiliser le prix comme une composante importante (au moins 30 %) de la procédure d'évaluation.

Réponse de la direction

La direction rejette la recommandation.

La direction a terminé l'examen et constate que la procédure actuelle garantit que les entreprises recevront du travail.

La plupart des offres à commandes utilisent une composante de prix à 100 % et elles sont accordées au soumissionnaire moins-disant. Une liste des entreprises autorisées est disponible; selon cette liste, le fournisseur de services les moins chers sera appelé en premier. La direction tente de restreindre le nombre d'entreprises à un niveau qui garantira du travail à la majorité, sinon à la totalité des entreprises. Toutefois, les offres à commandes sont préparées avant la divulgation des véritables attributions. Le principe de base d'une offre à commandes, comme l'indique chaque invitation

d'achat, est qu'aucune garantie de travail n'est donnée. De plus, en ce qui a trait à la traduction, les entreprises qui font partie de la liste d'offre à commandes font examiner la qualité de leur travail régulièrement. Si deux documents sont rejetés parce qu'ils sont inférieurs aux normes, l'entreprise est supprimée de la liste d'offre à commandes.

La taille, les ressources et les capacités des entreprises participant à une offre à commandes peuvent varier considérablement. Il est donc raisonnable d'affirmer que les grandes entreprises possédant de nombreux employés et une vaste expertise peuvent recevoir plus de travail qu'un petit fournisseur autorisé pour une même offre à commandes. Dans des secteurs comme la traduction, des entreprises recevront davantage de travail parce que leur taille et leur expertise leur permettront d'acquérir des compétences particulières ou d'offrir des délais d'exécution plus courts. Inversement, certaines petites entreprises offrent des services de traduction spécialisée et technique (pour les domaines de la santé, de l'ingénierie ou des finances par exemple). Ces requêtes sont moins fréquentes, mais les entreprises spécialisées reçoivent ces requêtes au détriment des entreprises généralistes.

De plus, à la suite du récent Sommet rural, on a recommandé le concept de la représentation géographique des fournisseurs de services des secteurs ruraux de la ville comme initiative d'acquisition. Si cette approche est adoptée, elle permettra d'ajouter des entreprises aux offres à commandes, ce qui offrira davantage de choix aux régions urbaines et rurales de la Ville et fera en sorte que les entrepreneurs qui fournissent des services connaissent les diverses exigences qui sont souvent spécialisées de ces différents secteurs.

Recommandation 7

La Gestion des approvisionnements devrait s'assurer que les nouvelles offres à commandes possèdent des critères d'évaluation efficaces pour faciliter le classement des propositions et garantir la « meilleure valeur » pour la Ville.

Réponse de la direction

La direction accepte la recommandation.

Cela reflète les pratiques d'achat actuelles, et une étude des offres à commande sera mise en œuvre d'ici au troisième trimestre de 2006.

Recommandation 8

Pour les offres à commandes existantes, la Gestion des approvisionnements devrait élaborer des procédures de gestion particulières pour garantir une attribution équitable du travail.

Réponse de la direction

La direction accepte la recommandation. Cela reflète les pratiques d'achat actuelles, et une étude des offres à commande sera mise en œuvre d'ici au troisième trimestre de 2006.

Recommandation 9

Lors de l'évaluation des propositions pour les offres à commandes, la Gestion des approvisionnements devrait tenir compte des différentes catégories de professionnels pour qu'elles correspondent à l'usage.

Réponse de la direction

La direction accepte la recommandation.

Cette recommandation sera mise en œuvre d'ici au troisième trimestre de 2006.

Recommandation 10

La Gestion des approvisionnements devrait veiller à ce que les commandes subséquentes à des offres à commandes techniques soumissionnent les ressources selon les classifications contenues dans la convention de l'offre à commandes, à défaut de quoi les soumissions seront jugées non conformes.

Réponse de la direction

La direction est d'accord avec l'objectif de la recommandation.

La direction est généralement d'accord avec la recommandation, mais elle est d'avis que certaines situations peuvent exiger de la souplesse.

Les offres à commandes sont, par nature, la détermination ou la description complète de la portée du travail requis. Par conséquent, les ressources servant à fixer un taux quotidien dans les propositions appartiennent à des catégories types ou génériques; toutefois, elles couvrent la majorité des besoins « en aval » qui se manifestent par la suite et qui deviennent des commandes subséquentes à une offre à commandes.

Il faut accepter le fait qu'une entreprise autorisée devra parfois inclure une ressource spécialisée dans sa proposition pour répondre aux besoins précis d'une tâche et qu'il y a des personnes compétentes sur place à la Gestion des approvisionnements pour faire en sorte que la Ville obtienne le meilleur coût.

Recommandation 11

Quand les Services de technologie de l'information font des appels d'offres et la personne identifiée (soumise initialement à une évaluation par l'auteur de la proposition) n'est pas disponible pour le travail, alors il faut sélectionner la deuxième soumission (au lieu de choisir la première entreprise et lui demander de trouver une autre personne).

Réponse de la direction

La direction accepte la recommandation. Un examen des Services de technologie de l'information révèle qu'il s'agit d'une pratique courante. On reconnaît toutefois qu'il y a une seule occasion où, par mégarde, cette pratique n'a pas été suivie (en 2003); l'offre à commandes était en vigueur depuis cinq ans.

Recommandation 12

Quand les Services de technologie de l'information font des appels d'offres, ils doivent rappeler aux soumissionnaires les critères qui seront évalués.

Réponse de la direction

La direction accepte la recommandation, qui sera mise en œuvre immédiatement.

Recommandation 13

La Gestion des approvisionnements doit s'assurer que les conventions d'offre à commandes ont une limite maximale initiale pour les commandes subséquentes de 100 000 \$ et que la valeur totale des modifications n'excède pas un montant supplémentaire de 50 000 \$ ou 50 % de la commande subséquentes initiale sans l'autorisation du directeur des services municipaux.

Réponse de la direction

La direction est d'accord avec l'objectif de la recommandation.

La direction reconnaît que la valeur totale des modifications aux commandes subséquentes ne devrait pas dépasser 50 % de la valeur de la commande subséquentes initiale. De plus, la plupart des commandes subséquentes ordinaires ont un seuil de 120 000 \$, que nous trouvons raisonnable. Même si la plupart des commandes subséquentes comportent habituellement une limite variant de 100 000 \$ à 120 000 \$, l'établissement d'un seuil précis en dollars ne reflète pas la vraie différence des produits et services que la Ville achète. Par exemple, le plafond de 100 000 \$ peut être trop élevé pour l'achat de fournitures de bureau, mais ne répondrait pas aux exigences pour conserver les ressources du SAP ou pour faire l'achat d'acier.

Par exemple, en technologie de l'information, il arrive souvent que des contrats de ressources liées au SAP exigent plus de 100 jours, parce que les ressources sont difficiles à trouver, les tarifs journaliers sont élevés et les fournisseurs demandent des engagements plus longs pour assurer la disponibilité.

Bien que la direction admette qu'il devrait y avoir une limite de 50 % aux modifications des commandes subséquentes, elle reconnaît que, du moins dans le cas des services d'infrastructure et des travaux publics, il pourrait y avoir des cas où il serait nécessaire de dépasser ces limites pour effectuer des travaux de suivi où le changement d'entreprise n'est pas dans le meilleur intérêt de la Ville sur le plan

financier. Ces exceptions doivent être approuvées par le directeur des services municipaux.

Recommandation 14

La Gestion des approvisionnements devrait revoir les activités d'achats des Services du parc automobile et préparer des offres à commandes ou des soumissions appropriées.

Réponse de la direction

La direction accepte la recommandation.

Elle sera mise en œuvre d'ici au troisième trimestre de 2006.

Recommandation 15

Quand les organisations passent des commandes directement, elles doivent en envoyer une copie à la Gestion des approvisionnements à des fins de suivi.

Réponse de la direction

La direction accepte la recommandation.

Elle sera mise en œuvre d'ici au deuxième trimestre de 2006.

Recommandation 16

La Gestion des approvisionnements devrait régulièrement examiner le site des offres à commandes pour s'assurer qu'il est à jour.

Réponse de la direction

La direction accepte la recommandation. Cette procédure est actuellement en œuvre.

Recommandation 17

La Gestion des approvisionnements devrait inclure toutes les activités d'achat dans son rapport au Conseil, sans égard à la source de renseignements ou à la méthode d'acquisition, et les présenter d'une manière claire et simple à comprendre.

Réponse de la direction

La direction est d'accord avec l'objectif de la recommandation.

Selon la direction, les rapports actuels respectent les normes établies dans le Règlement municipal sur les marchés qui demande à la Gestion des approvisionnements de remettre au Conseil un rapport trimestriel détaillé sur les contrats qui dépassent 25 000 \$ et qui ont été attribués par délégation de pouvoir.

La recommandation propose d'inclure les travaux qui sont inférieurs à 25 000 \$ ou qui ne passent pas par la Gestion des approvisionnements. La production de rapports comme ceux-là est possible, mais irréaliste compte tenu des ressources actuelles parce que cette exigence supplémentaire nécessiterait une analyse continue de tous les autres types de paiements, et pourrait omettre de fournir les renseignements dont le Conseil a besoin pour effectuer la surveillance financière.

Il serait beaucoup plus simple et économique si les employés des comptes fournisseurs produisaient une liste annuelle de tous les fournisseurs ayant reçu des paiements totalisant 25 000 \$ ou plus, sur laquelle figurerait le total des paiements faits durant l'année. Le SAP peut produire aisément ce type de rapport, sauf que le besoin de supprimer les paiements non discrétionnaires comme ceux versés aux autres niveaux de gouvernement, fournisseurs de services de prestations, fonds de pension, conseils scolaires, etc., et de présenter les données de façon réaliste exigera un niveau d'effort administratif supplémentaire.

La direction reconnaît qu'il est temps d'étudier la façon dont on pourrait améliorer l'établissement de rapports au Conseil pour les contrats et les achats. La Gestion des approvisionnements étudiera les pratiques exemplaires de supervision pour les rapports du Conseil et présentera les améliorations qu'elle propose pour le prochain mandat du Conseil.

Recommandation 18

La Gestion des approvisionnements devrait faciliter la production de rapports en intégrant des champs spéciaux dans le module des acquisitions du SAP afin de recenser des types de transactions précis : commandes subséquentes à des offres à commandes, demandes de prix, demandes de soumissions, demandes de propositions, demandes d'offres à commandes, paiements sans renvoi et autres.

Réponse de la direction

La direction accepte la recommandation.

Cette mise à jour du module des acquisitions du SAP constituerait un précieux atout pour la capacité de production de rapports sur les données. La Gestion des approvisionnements mettra sur pied un groupe de travail pour examiner l'implémentation des mises à jour proposées; ce groupe comprendra la Division de la gestion des applications d'entreprise de la TI et le Centre de soutien du SAP. Toutefois, cette demande sera soumise à l'analyse et à l'évaluation des dossiers administratifs, comme toutes les autres demandes de technologie de l'information, et classée selon son ordre de priorité par rapport aux autres demandes.

Recommandation 19

La Gestion des approvisionnements devrait veiller à ce que les paiements sans renvoi soient surveillés adéquatement de manière à cibler et à inclure les cas

d'inobservation dans les rapports périodiques présentés au Conseil et au directeur des services municipaux afin d'en réduire le nombre.

Réponse de la direction

La direction est d'accord avec l'objectif de la recommandation.

La direction croit que le niveau de surveillance actuel est adéquat. L'adoption d'un examen complet aura des conséquences sur les ressources.

La Direction des services financiers vérifie continuellement la conformité de tous les paiements par cartes de crédit, avec la petite caisse ou sans renvoi à un bon de commande; il s'agit d'une composante essentielle du cadre de contrôle de gestion financière de la Ville. Les rapports sont remis à la direction à titre d'information. La Direction des services financiers et les parties visées s'occupent de tous les cas non conformes.

L'examen de tous les paiements sans renvoi dans le but de produire des rapports sur les offres à commandes et l'inobservation exigera une augmentation considérable du nombre d'employés des comptes fournisseurs ainsi qu'une adaptation potentiellement coûteuse de l'application du SAP.

La mise en œuvre de cette recommandation sera intégrée dans le plan d'activités des services pour 2007, et les ressources seront demandées dans le cadre du budget 2007.

Recommandation 20

La Gestion des approvisionnements devrait veiller à ce que les rapports trimestriels reflètent la véritable nature des achats. Les gestionnaires de programme ne devraient que corriger les erreurs au lieu d'« interpréter » la description des achats, qui doit être la même que dans la demande d'approbation du contrat.

Réponse de la direction

La direction accepte la recommandation.

Les corrections devront uniquement clarifier la description. Cette recommandation sera mise en œuvre immédiatement.

Recommandation 21

La Gestion des approvisionnements devrait revoir les clauses et les formats de leurs contrats pour éviter tout dédoublement.

Réponse de la direction

La direction accepte la recommandation. Elle sera mise en œuvre d'ici au troisième trimestre de 2006.

Recommandation 22

La Gestion des approvisionnements ne devrait pas modifier les modalités sans l'autorisation explicite de la Gestion des risques.

Réponse de la direction

La direction accepte la recommandation. Elle sera mise en œuvre immédiatement.

Recommandation 23

La Gestion des approvisionnements et l'Unité des services financiers devraient s'assurer d'envoyer les modalités avec les offres à commandes des services et de la Ville, sans égard à leur valeur, et de conserver l'accusé de réception des fournisseurs dans le dossier.

Réponse de la direction

La direction rejette la recommandation.

La direction est d'avis que la procédure actuelle est préférable à la recommandation.

Actuellement, les documents d'appel d'offres, les soumissions, les offres à commandes, les propositions et autres documents semblables renferment une quarantaine de modalités standard (pages 6 et 7 habituellement) préparées par les services des achats, la Gestion des risques et les Services juridiques afin de protéger la Ville contre un certain nombre de risques. Parmi les points soulevés, il y a, entre autres, la réalisation du travail, l'assurance, l'indemnisation, la responsabilité, la santé et la sécurité au travail, la *LAIMPVP*, les conflits d'intérêts, la confidentialité et les exigences en matière de rapports. Dans leur proposition, les soumissionnaires sont obligés d'accepter les modalités de la Ville (à l'étape du dépôt des soumissions, moment où la Ville possède une force de négociation).

Après le choix du fournisseur (soumissionnaire moins-disant ou offrant la meilleure valeur), le bon de commande est émis. Ce bon de commande comprend, de manière explicite, la liste des priorités qui énumère parmi d'autres documents le dossier d'appel d'offres initial de la Ville (qui contient les modalités juridiques complètes) et la réponse du soumissionnaire (qui a accepté les modalités) pour une période de validité acceptable du point de vue juridique.

La Direction des services juridiques de la Ville a approuvé cette approche qui semble adéquate. Cette approche est d'ailleurs préférable à la collecte de déclarations signées qui survient après l'attribution du contrat et qui réduit la possibilité pour la Ville d'imposer des conditions parfois onéreuses au fournisseur. De plus, les bons de commande des services comprennent une version condensée des principales modalités juridiques qui s'imprime automatiquement dans le SAP et qui est remise au fournisseur.

Recommandation 24

La Gestion des approvisionnements devrait s'assurer que toutes les demandes de propositions contiennent une clause demandant aux soumissionnaires de certifier que les taux offerts sont ceux accordés à leurs meilleurs clients et précisant que cette confirmation peut faire l'objet d'une vérification.

Réponse de la direction

La direction est d'accord avec cette recommandation et l'étendra même à toutes les propositions d'appels d'offres.

Cette recommandation sera mise en œuvre d'ici au troisième trimestre de 2006.

Recommandation 25

La Gestion des approvisionnements devrait s'efforcer d'intégrer la demande d'approbation des contrats dans le module des acquisitions du système financier.

Réponse de la direction

La direction rejette la recommandation.

La demande d'approbation des contrats est un modèle Word utilisé pour approuver tous les contrats sous délégation de pouvoir. Cette demande s'adapte bien à la fonction du courrier électronique d'Outlook, et l'échéance associée à l'approbation des contrats, même dans les hauts échelons de la direction de la Ville, est étonnamment courte. L'intégration du document « Word » de la demande d'approbation des contrats dans le SAP ne serait pas rentable.

Réponse générale de la direction

Dans la plupart des cas, le personnel est d'accord avec les recommandations, et lorsqu'il y a une divergence d'opinions, d'autres commentaires sont offerts.

Pendant la vérification des achats, la Division de la gestion des approvisionnements a participé à de nombreuses discussions qui ont donné lieu aux recommandations de ce document, dont beaucoup s'alignent sur les objectifs des services d'achat de la Ville.

L'importance accordée par les recommandations à l'exhaustivité des rapports et à l'amélioration des procédures confirme l'absence de graves erreurs quant à l'impartition, ce qui est très encourageant.

Depuis la fusion, la participation des services d'achat aux contrats de la ville est passée d'un niveau de base de 484,5 millions de dollars en 2004 à un montant estimé à 900 millions de dollars en 2005 qui surpasse un milliard de dollars. Les procédures et les processus mis en œuvre depuis 2001 ont ajouté de la valeur et garanti une approche uniforme des achats et des contrôles très utiles pour la grande majorité des dépenses de la Ville.

Les recommandations du présent document exigeraient beaucoup plus d'efforts de la part des services d'achat et elles doivent être analysées pour qu'on en connaisse les avantages. Pour mettre en œuvre toutes les recommandations, les services d'achat auraient besoin de quatre équivalents temps plein (ETP) supplémentaires (un commis, un acheteur et deux agents des achats), ce qui représente un coût annuel total estimé à 273 000 \$, ainsi qu'un montant ponctuel de mise en place de 100 000 \$. D'autres ressources seront nécessaires dans le secteur des services comptables si toutes les recommandations relatives à la production de rapports sont adoptées.

La direction cherchera à savoir où les efforts pourraient être réorientés, comme dans le cas des rapports, pour limiter les coûts tout en améliorant les renseignements. La mise en œuvre de ces efforts sera déterminée dans le plan d'activités du service pour 2007, et les ressources seront demandées dans le cadre du budget 2007.

Conclusion

Les procédures et processus existants assurent raisonnablement au Conseil que les activités d'impartition respectent la politique municipale.

Dans l'ensemble, il est possible d'apporter des changements opérationnels à la production de rapports et d'améliorer l'optimisation des ressources en augmentant la composante du prix lors de l'impartition, en utilisant des méthodes d'évaluation des propositions de prix et en gérant plus efficacement les offres à commandes.

La Division de la gestion de l'approvisionnement doit exercer pleinement ses pouvoirs de contrôle pour garantir la mise en œuvre de toutes les recommandations.

Nous remercions la gestion pour la courtoisie et l'assistance qu'ils nous ont offertes pendant cette vérification.

1.0 Introduction

The Audit of the Procurement Process was part of the 2005 audit plan brought forward by the City's Auditor General and received by Council on December 15, 2004.

2.0 Background

In February 2001, Council approved the City of Ottawa Purchasing By-Law. The policies contained in the By-Law are designed to support managers in carrying out contracting activities and to ensure that City standards of accountability, risk management and good business practices are followed. The By-Law allows for both centralized and decentralized contracting and procurement activities.

The Supply Management Division of the Financial Services Branch is responsible for conducting centralized procurement and contracting activities under the direction of the Financial Services. Financial Support Units and departments are responsible for decentralized procurements.

Supply Management's main activities consist of the following:

- Establishing and administering policy;
- Reporting all procurement and contracting activities; and
- Direct procurement and contracting services for requirements greater than \$10,000.

Financial Services, in conjunction with the department(s) are responsible for:

- Procurements of \$10,000 or less (Departmental Purchase Orders);
- Payments without Reference to a Purchase Order; and
- Procurement Cards.

There are four main transaction types utilized to acquire goods and services.

- Corporate Purchase Orders are issued by Supply Management to acquire goods, services and construction in accordance with the Purchasing By-law where the estimated value is greater than \$10,000.
- Departmental Purchase Orders are utilized by a Department to purchase goods, services and construction in accordance with the Purchasing By-law where the estimated value is \$10,000 or less.
- Purchasing Card Transactions are used to acquire goods and services in accordance with the Purchasing By-law where the estimated value is \$5,000 or less.
- Payments Without Reference are made for goods or services that have been acquired without a Purchase Order, generally without the involvement of Supply Management.

In 2004, Purchase Orders were issued for a total value of \$437 million and \$10.5 million worth of goods and services were acquired using Purchasing Cards. Approximately 980 Purchasing Cards (including those used by the Ottawa Police Service) are active with an average 2,800 transactions per month. The following table outlines details of the Purchase Prders:

Corporate Purchase Orders (PO)	\$381 million
Departmental Purchase Orders (DPO)	\$ 56 million
Total Purchase Orders (2004)	\$437 million

3.0 Audit Objectives

The objectives of this audit were to provide an independent and objective assessment to:

- ensure that appropriate processes are in place to track, manage and control procurement and contracting carried out by City employees;
- provide Council with assurance that procurement and contracting activities comply with established policy and procedures; that they limit the City's exposure to risk, and to identify mitigating strategies when appropriate and to identify best practices;
- determine whether procurement achieves value for money; and,
- determine whether 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.

4.0 Audit Scope

The scope of the project included an examination of the City of Ottawa's contracting policy as well as management practices, system of internal controls, policies, and procedures pertaining to the administration's contracting and procurement practices, including Purchasing Cards, and their compliance with established policies and procedures.

The audit also reviewed procurement and contracting activities carried out in 2004 in all departments, including the Ottawa Police Service. The audit examined management practice(s) in planning, controlling, and monitoring of all related activities.

In addition to reviewing Corporate Purchase Orders, files relating to Departmental Purchase Orders, Payments without Reference and Purchasing Cards were examined. Also included was a follow-up of recommendations pertaining to Purchasing Cards made

in the 2003 Audit of the Corporate Card and Purchasing Card Program, conducted by the former Audit and Consulting Services Branch.

5.0 Approach

Our approach included the following audit steps:

1. Review of documentation collected (policies affecting the management of procurement and contracting, including Purchasing Cards).
2. Planning and conducting interviews with departmental managers and staff.
3. Assessment of tools/mechanisms used by managers to monitor and control processes.
4. File review which included:
 - Random sample of 48 Purchase Orders;
 - Judgmental sample of higher risk procurements – e.g. – Professional Services (approximately 27 Purchase Orders);
 - Supplemental testing of Departmental Purchase Orders and Payments without Reference (approximately 50 each), and
 - Purchasing Cards (approximately 50 transactions).

6.0 Acknowledgement

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

7.0 Detailed Observations, Findings and Recommendations

7.1 Results of Contract File Review

7.1.1 Corporate Purchase Orders

Procurement and contracting activities generally comply with established policy and procedures. Forty-eight (48) contract files were randomly selected for review. These were supplemented by an additional twenty-seven (27) higher risk contracts, primarily for professional services.

The following table summarizes the transactions that were found to be non-compliant with the Purchasing Policy:

Summary of Inappropriate / Non-compliant Purchasing Transactions		
Exception to Policy and/or Procedure	Qty	Comment
After the Fact (\$25,000 contract) – Purchase Order established after services delivered	1	Low/Moderate Risk Services were delivered
Waiver of Standard Clauses – involvement of Risk Management not documented	1	Potentially High Risk due to the nature of the procurement
Verification of Standing Offer Rates	2	Moderate Risk Potential overpayment \$15,000 (of a total value of \$153,000)
Failure to include Standard Terms & Conditions	1	Low Risk Low dollar goods contract
Hard copy file not located (electronic version made available)	1	Low/Moderate Critical information was subsequently provided from electronic sources
Total	6	

The error rate in both sets of contracts was approximately 8%.

Recommendation 1

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

Other specific recommendations related to the above table are addressed in the text of this report at Section 7.3, Standard Terms and Conditions. For the other areas, no specific recommendations are believed necessary as they were exceptions to standard processes deemed appropriate and adequate, and not due to a lack of policy or procedure.

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.

7.1.2 Departmental Purchase Orders

Departmental Purchase Orders are utilized by a department to purchase goods, services and construction in accordance with the Purchasing By-law where the estimated value is \$10,000 or less.

A total of 50 Departmental Purchase Orders were drawn as a statistical sample. The rate of inappropriate transactions within the sample of Departmental Purchase Orders was also 8%.

During the period under review, about August 1, 2004, a new feature of the financial system was introduced. The “release strategy” permits the Financial Support Units to create a requisition for any dollar amount, but effectively limits their ability to release a transaction to under \$10,000. All other requirements must be released through Supply Management. This feature effectively forces transactions greater than \$10,000 to be released through Supply Management.

7.1.3 Payments without Reference

Under accounting policies and procedures, payments may be made for goods or services that have been acquired without a Purchase Order. The invoices for such purchases are therefore without reference to a Purchase Order and such payments are classified by Financial Services as “Payments without Reference”. A list of representative Payments without Reference is provided in the policy. The list includes charges such as petty cash, employee reimbursements, refunds, statutory remittances, grant payments and utility services. We recognize that payments without reference are an appropriate payment mechanism for such charges, however we found that some of the payments without reference should have been completed using Purchase Orders.

A total of 50 Payments without Reference were also drawn as a sample. The rate of inappropriate transactions within the sample of Payments without Reference was a significant 24%, or 12 transactions. These inappropriate transactions included the following:

- One case where services were procured without the involvement of Supply Management (Value \$179,000);

- Two cases where option years on contracts were exercised without the involvement of Supply Management (Value \$202,000);
- Two cases where services provided under Purchase Orders were expanded without the involvement of Supply Management (Value \$115,000);
- One case where the approving officer exceeded their delegated authority of \$5,000 (Value \$22,000); and
- Six cases (which were under \$10,000 each) where there was no evidence that appropriate quotes were obtained or departmental Purchase Orders issued.

Furthermore, these transactions are not currently incorporated into the overall Supply Management reporting activities. Some significant transactions are currently not brought to the attention of Council.

The situation with a high rate of inappropriate Payments without Reference is attributable to the current checks and balances within the overall process. As a result, virtually all non-compliant transactions are processed as Payments without Reference as there is no other authorized means to effect payment.

These transactions need to be adequately monitored and included in Supply Management reports to Council. Additionally, an exception report of inappropriate Payments without Reference needs to be prepared, for Council and the City Manager, in order to minimize their occurrence.

Recommendations relating to reporting of these transactions are included under section 7.2 Reporting.

7.1.4 Purchasing Cards

A well-defined process is in place for the procurement and payment of low dollar value goods and services. Almost all the 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, based on our review and testing. Details are attached as Appendix A. However some computer purchases continue to be paid for using Purchasing Cards contrary to the 2003 audit recommendations.

Approximately 980 Purchasing Cards (including cards used by the Ottawa Police Service) are active with an average 2,800 transactions per month. Total expenditures were \$10.5 million in 2004.

A random sample of 32 transactions was selected for detailed testing plus an additional 10 transactions selected on a judgmental basis. All transactions were supported by appropriate receipts. With the exception of one transaction, all transactions were further supported by an itemized receipt or invoice indicating the type of good/service procured.

The April 2005 issue of the *Internal Auditor Journal* highlighted a number of good practices for fraud resistant Purchasing Cards. With the exception of the face-to-face

training for a new cardholder, the City's purchasing card program has incorporated each of these good practices. While purchasing card training is provided to cardholders on an annual basis it is not provided before the purchasing card is issued. We do not believe this is a problem as adequate information is provided when the card is issued and there are adequate checks in the current system.

7.1.5 Amendments for Sole Source Contracts

Under the Purchasing By-Law, paragraph 20(3), "The Director and Supply Management may jointly select a supplier to provide professional services where a) the estimated total cost does not exceed \$50,000, and b) the cost of preparing detailed proposals would deter suppliers from submitting proposals."

However, once a sole source contract is in place, there can be requirements to alter the scope of work. Subsequently, amendments can be processed which effectively circumvent the intent of limits established for sole source contracts. Therefore, to be consistent with the By-Law, controls should be placed on amendments to sole source contracts.

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.

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.

7.1.6 Amendments for Follow-on Work

Current policy permits the continuation or amending of contracts for directly related follow-on work. This permits Project Managers to effectively double or triple the value of work without recourse to the competitive bidding process.

We reviewed 22 files for engineering related professional services which were active, i.e., which had been awarded or amended, during 2004. The initial value of the contracts was \$5.9 million. Through amendment, the value was increased to nearly \$22 million, an increase of almost 375%. Amendments were issued to provide for Detailed Design, Contract Administration or both, without using the competitive process to ensure best value. In keeping with public sector values of ensuring openness, fairness and transparency, the total value of amendments to the scope of work of any contact should be limited.

Recommendation 3

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

Management Response

Management disagrees with this recommendation.

Amendments to contracts are typically in light of unforeseen changes in scope, and are scrutinized closely, in both the operating department and by Purchasing, with a view to ensuring that fair value is received by the City. The current approval process includes both the Manager of Supply Management and level 2 approval of either the Chief Corporate Services Officer or Deputy City Manager, and continues to be appropriate.

7.1.7 Pricing Methodology

The competitive process is the normal way to establish best value and price.

There are two issues worth reviewing in the allocation of points in the evaluation of proposals. First is the percentage of points allocated for price, and secondly is the methodology to determine how those points will be allocated.

The choice of evaluation methodology in evaluating proposals does not always reflect price differentials. This means significant premiums can be paid for proposals with minor differences in quality.

Currently there are two practices in place to allocate points in the evaluation process for the cost element. One is referred to as “benchmarking”, whereby all submitted bids are totalled then averaged and bidders within fixed percentages above this benchmark, or average, receive all or a portion of the available points for the price component. In this methodology, firms having widely differing price proposals can receive the same points, as no “extra” points are awarded for being below the average cost. Therefore, it would be possible to pay significantly more money for a marginally better proposal. 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.

This identical allocation of points would continue even if the points for the financial proposal were 10% or 40%, therefore changing the price component on its own would be ineffective.

Another methodology that better reflects price differences is referred to as “standard deviation”, whereby the lowest qualified bidder receives full marks for their financial proposal and all others are effectively pro-rated against this price. This methodology would assist in obtaining better value.

A third alternative methodology is “price per point”. Under this alternative, bids or offers must meet the mandatory requirements and score the stated minimum in the Request for Proposal to be considered responsive. The responsive bid/offer with the lowest price per rated point will be recommended for the award of a contract. The “price per rated point” would be determined by dividing the submitted price of each responsive bid by their final point rating.

During the course of our review, we also noted that some professional service Requests for Proposal are subject to a pre-qualification phase. Since all the firms who proceed to the next phase in the process are effectively deemed qualified to conduct the work, even greater emphasis should be placed on obtaining financial value. In these cases, once firms are pre-qualified, they could be selected for specific proposals on the basis of the lowest bid.

Adoption of evaluation methodologies that better reflect price differences in proposals for professional services, such as standard deviation, low bid or price per point could lead to significant cost savings. During the summer of 2005, Supply Management increased the price component from 10% to 15% of the evaluation criteria on twelve engineering service procurements. Supply Management estimated that the cost savings were \$606,000 due to this change in price component on these assignments, valued at \$5.2 million. In addition, Supply Management estimates that further cost savings of \$580,000 could have been obtained if the price component on these proposals had been raised to 30% and the evaluation methodology changed to standard deviation. This represents significant potential savings, especially in the area of engineering services, which are currently estimated to cost \$40 million annually.

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.

Management Response

Management agrees with the intent of this recommendation.

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

7.1.8 Percentage of Points Allocated to Financial Proposals

This must be considered in conjunction with the methodology as discussed above. The percentage is virtually irrelevant without a meaningful methodology. Currently there are two basic thresholds for the allocation of points for the financial aspects of proposals. For most professional services it is 20%, whereas for engineering it was 10% during the period under review (recently increased to 15%). In the occasional instance where the price component has been at 20% for engineering related requirements, there has been no shortage of competition. Increasing the allocation of points for the financial aspect of any Request for Proposal to a minimum 20% has been a long standing goal for Supply Management.

Recommendation 5

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

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.

7.1.9 Standing Offer Utilization / Management

We reviewed several areas where Standing Offers are in place to facilitate the acquisition of professional services: Translation, Information Technology Services, Legal Services and Engineering. There are a variety of practices in place to establish and manage Standing Offers.

In Information Technology Services, there is a concerted effort made to further obtain best value, by having pre-qualified suppliers on the Standing Offer submit proposals where price is 40% of the final score.

In both Translation and Engineering there is a trend to allocate the bulk of the work to a small pool of consultants. If this is the intent, then the method of purchasing should be altered to reflect that. This would mean a significant price component in order to rank submitted proposals.

For several key engineering related Standing Offers, detailed statistics are maintained by Procurement Officers reflecting which firms have received call-ups for work. This clearly demonstrates the equity or disparity in the distribution of contracts against these Standing Offers. This information should be shared regularly with responsible staff and Project Managers to enhance their ability to equitably distribute work in an “open, fair and transparent process”.

Engineering requirements are divided into nine categories. The total value of call-ups for the 21 month period from April 1, 2003 to December 31, 2004 was \$8.1 million. The total amount for the most active category, Design & Construction Roads, Sewers and Watermains, for the same period was \$4.3 million, which represents 53% in the total Engineering Standing Offer amount awarded. Of this amount, three firms received 44% (\$1.9 million) of the call-ups while the remaining 13 firms shared 56% (\$2.4 million).

Translation Services include thirty-one (31) vendors. The total value of purchases for 2004 was \$518,000. Of this, the top five vendors received 50% (\$259,000) of the business, the next 5 vendors received 30% (\$155,000) and the remaining 19 firms shared 20% (\$104,000).

The interests of all parties would be better served if the contracting process ensured that a reasonable number of firms are awarded Standing Offers and given some assurance that they will receive some work. This would require that appropriate evaluation criteria be developed to rank proposals and that price be a significant part of the evaluation process.

In the interim, for existing Standing Offers, specific management processes be developed and implemented in order that the work be allocated equitably (such as tracking each award to ensure there is rotation and that firms furthest from the median value of call-ups receive the next contract automatically or running competitions within the group of pre-qualified suppliers).

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.

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.

Recommendation 7

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

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.

Recommendation 8

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

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.

7.1.9.1 Engineering Services Standing Offers

When establishing Standing Offers for professional services, bids are submitted by hourly rate for the various categories of employee, such as Project Manager, Senior, Intermediate and Junior Engineer, and Administrative Support. The tendency is to total the rates and arrive at an average hourly cost. However, this does not accurately reflect the potential cost of doing business as the majority of work is done by engineering staff. The various categories of professional should be weighted to reflect usage and to more accurately reflect true costs.

When bids are received in response to a call-up against a Standing Offer, firms do not always bid resources against the classifications contained in their Standing Offer Agreement, such as Project Manager or Intermediate Engineer, for which hourly rates are established. Occasionally they just refer to the resources by name. This can cause confusion in cross referencing proposed resources and hourly rates against the stipulated maximums in existing agreements and potentially lead to paying a premium.

Recommendation 9

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

Management Response

Management agrees with this recommendation. This will be implemented by Q3 2006.

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.

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.

7.1.9.2 Information Technology Services Standing Offers

During the course of our review we noted situations when Information Technology Services related requirements were “bid within the Standing Offer”, and the individual nominated (originally submitted for evaluation) by the winning proponent was unavailable for work. Subsequently the original firm simply substituted another individual. This is not in keeping with an open, fair and transparent process as other firms’ nominees had already been assessed and deemed the next best qualified.

When Information Technology Services calls for bids within the Standing Offer, the pool of suppliers and contacts is quite constant. This leads to assuming that all participants are aware of the criteria for evaluating submissions, and therefore the criteria are not always distributed along with the call for submissions. This may not always be the case due to turnover, and leaves the City open to challenge.

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, that the second qualified bid be selected (rather than the original firm substituting another individual).

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.

Recommendation 12

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

Management Response

Management agrees with this recommendation. This will be implemented immediately.

7.1.9.3 Other Issues with Standing Offers

As a general rule, other public sector organizations have set limits on initial call-ups against Standing Offers as well as for amendments to those call-ups. This is stipulated in some of the City's current agreements.

In our review we noted several significant examples where Fleet Services had aggregate expenditures greater than \$250,000 with firms and for which no Standing Offer was found. 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.

Not all departments currently provide Supply Management with copies of call-ups made against Standing Offers. This limits Supply Management in their ability to monitor utilization and work distribution. We also noted that several of the documents, on the internal, Intranet Standing Offer site within Moe, were expired.

Recommendation 13

That Supply Management ensure 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.

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.

Recommendation 14

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

Management Response

Management agrees with this recommendation.

This will be implemented by Q3 2006.

Recommendation 15

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

Management Response

Management agrees with this recommendation.

This will be implemented by Q2 2006.

Recommendation 16

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

Management Response

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

7.2 Reporting Requirements

The overall reporting process needs improvement. The Purchasing By-Law, section 39 (1) states "Supply Management shall submit to Council an information report quarterly

containing the details relevant to the exercise of delegated authority for all contracts awarded by Directors exceeding \$25,000, including amendments and renewals.” Section (3) requires Supply Management to certify that the awards are in compliance with the Purchasing By-Law.

There are gaps in the contracting information produced including details on transaction type and/or value acquired through all means of acquisition. The exact value of contracting services acquired through Standing Offers and/or Payments without Reference could not be readily extracted from the Financial System. Payments without Reference are not included in the overall report. There were several significant examples where aggregate expenditures through Payment without Reference directed to individual firms were greater than \$25,000 and not included in the report.

Steps have been initiated to improve the quality, completeness and timeliness of information. In July 2004, Supply Management began to include high-level information on the use of major Standing Offers in their quarterly reports to Council. However additional refinement is required to establish procedures to monitor contracting activity for compliance and performance in a timely manner.

Basic information should be routinely produced and analysed to establish:

- number and percentage of files meeting service level targets,
- aggregate number of Standing Offer Call-ups and their dollar value,
- aggregate number of Departmental Purchase Orders and their dollar value, and;
- the value of transactions processed as Payments without Reference which should have been processed as Purchase Orders.

The current process for compiling the quarterly and annual reports to Council is labour intense and subject to a significant number of edits, which may lead to a lack of clarity in the description of the goods or services purchased. In order to improve the timeliness of reporting, the process for review and editing needs to be streamlined and ensure that the goods and services purchased are described as they were recorded in the Contract Approval Request.

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.

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 \$25,000 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.

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.

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 Center to investigate the possibility of implementing the suggested upgrades. This application will undergo the same analysis and business case evaluation as all other Information Technology requests and be prioritized against all other requests.

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.

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 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.

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.

Management Response

Management agrees with this recommendation.

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

7.3 Standard Terms and Conditions

As an additional aspect of the work undertaken, we reviewed a selection of clauses in the Terms and Conditions in order to identify their appropriateness.

The identified standard clauses used by the City were reviewed with Risk Management and discussed with Legal Services as appropriate. Additionally officials of other public sector contracting organizations were consulted. The clauses were also compared to documentation utilized by other public sector organizations.

Summary of Terms and Conditions Review		
Clause	Comment	Assessment
Liability	Clauses used by the City were reviewed with Risk Management and Legal Services and discussed with officials of other public sector contracting officials, and compared to documentation utilized by other public sector organizations.	Unlimited liability clause is appropriate and adequate.
Insurance	Reviewed with Risk Management. Some contract types included insurance clauses twice, once with indemnification and once as a stand-alone.	Appropriate and adequate as tied to contract value and pre determined risk .
Confidentiality	Compared / benchmarked against other entities .	Appropriate and adequate.
Audit/Accounts	Compared / benchmarked against other entities, reviewed by CA auditors.	Complies with recommendation of risk management and therefore adequate.
Survival	Compared / benchmarked against other entities.	Complies with recommendation of risk management and therefore adequate.

Some contract types, generally those other than professional services, included insurance clauses twice, once with indemnification and once as a stand-alone. This duplication should be eliminated to avoid any confusion with suppliers.

During our review we noted cases where Terms and Conditions had been waived by Directors without the input of Risk Management, thereby exposing the City to greater risk than necessary. It is our understanding that Risk Management consults Legal Services as required in the review of possible exceptions to the Standard Terms and Conditions. We also noted that Standard Terms and Conditions are not always sent out to suppliers who are awarded contracts through Purchase Orders and/or Departmental Purchase Orders, thereby exposing the City to greater risk than necessary.

As part of ensuring “Best Value”, other public sector organizations generally require suppliers to certify that the rates offered are those offered to their best/most-favoured client. This ensures that the most competitive rates available are obtained. This is currently not a practice at the City of Ottawa.

Recommendation 21

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

Management Response

Management agrees with this recommendation.

This will be implemented by Q3 2006.

Recommendation 22

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

Management Response

Management agrees with this recommendation.

This will be implemented immediately.

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.

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.

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.

8.0 Best Practices

In accordance with a risk-based approach, the City has consolidated the contracting function under Supply Management Division within the Financial Services Branch. Except where permitted under the By-Law, all contracts greater than \$10,000 are processed by Supply Management staff. An existing feature of the corporate financial system, the “release strategy” permits the Financial Support Units to create a requisition for any dollar amount, but effectively limits their ability to release a transaction to under \$10,000. All other requirements must be released through Supply Management.

A Contract Approval Request has been put in place and operating with a risk-based approach to reviewing procurement requirements. As the dollar value of the procurement increases so does the requirement for senior management review and approval. This represents a significant step in accountability and management control. It provides the concise story of activities concerning the particular transaction including whether it is an amendment and whether it was processed “outside” of the authorized processes established in the Purchasing By-Law.

The current Contract Approval Request is a “stand alone” document. For ease of use and documentation retrieval it should be incorporated into the Financial System.

Policy and standard processes and procedures for contracting have been developed and communicated, as have Roles and Responsibilities.

Files held in Supply Management consistently provided adequate documentation to ensure that the policy requirements established in the By-Law had been satisfied, including: appropriate approvals, notification of competition, method of procurement, statements of work and evaluation criteria.

Recommendation 25

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

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.

General Management Response:

In most instances staff are in agreement with the recommendations and where there is a difference of viewpoint further comments have been provided.

Throughout the audit of procurement, Supply Management Division was involved in many discussions, which led to the recommendations contained herein, many of which run parallel to the objectives of Purchasing within the City.

The focus of the recommendations on reporting completeness, and process improvement, is recognition that there was an absence of more high profile errors in contracting which is very positive.

Since amalgamation the involvement of Purchasing in City contracts has risen from the 2001 baseline of \$484.5 million, to a 2005 level, which exceeded \$1 billion. The processes and procedures implemented since 2001 have added value and ensured a consistent purchasing approach with valuable controls for the vast majority of City spending.

A number of the recommendations contained herein would add considerably to the level of effort needed within Purchasing, and will be analyzed in relation to the value added to the current state. In order to implement all recommendations it is anticipated that Purchasing would need an additional four FTE's, one clerical, one buyer, and two purchasing officers, at an estimated total cost of \$273k annually, along with a one time set-up cost of about \$100k. Additional resources will also be required in the Accounting area if all recommendations regarding reporting were implemented.

Management will be examining where efforts could be refocused, as in the case of reporting, to minimize costs while enhancing the information. The implementation of these efforts will be identified in the 2007 Departmental Business Plan and resources sought as part of the 2007 budget.

9.0 Conclusion

Current processes and procedures provide Council a reasonable level of assurance that contracting activities are in compliance with City policy.

Overall there are opportunities to effect operational improvements in reporting and to enhance value for money through increasing the price component in contracting, utilizing more appropriate methodologies in evaluating price submissions and more effective management of Standing Offers.

The Supply Management Division must fully exercise their control responsibilities to ensure all of the recommendations are implemented.

Appendix A: Purchasing Card Follow-up Status

2003 Audit of the Corporate Card and Purchasing Card Program Status of Implementation of Recommendations				
	Findings	Recommendation	Management Response to the Audit of 2003	Action Taken Since the Audit as Stated by Management and Verified during Our Review
5.1	<p>The card program was designed to include necessary control procedures, however, they were not operating as designed.</p> <p>Cardholders and Directors were not consistently fulfilling their responsibilities with regard to the verification and approval of the monthly statement.</p> <p>Control features to automate parts of the validation process are available as part of the supplier's software but have not been properly implemented by the City.</p> <p>Control and program oversight by Finance Branch needs to be strengthened.</p>	<p>That Finance ensure the available SIC blocking controls are properly implemented.</p> <p>That Finance establish an effective compliance program to ensure the completeness, accuracy and adherence to corporate policies of expenditures on the credit card program.</p> <p>That SMT ensure that all cardholders and supervisors are reminded of their responsibilities under the policy and ensure an effective compliance mechanism is implemented.</p>	<p><i>Finance</i></p> <p>A revised Corporate Card policy is currently being developed as well as a compliance program to ensure adherence to the corporate card program. The program will include conducting audits on a reasonable percentage of the cardholders as resources allow. This process has commenced and will be completed by the third quarter of 2003. The adherence to policy issues is the responsibility of all Management. Our compliance testing will monitor the completeness, accuracy and policy adherence issues.</p>	<p>The SIC blocking controls have been invoked to restrict purchases such as restaurants, florists, etc. The Financial Services Branch has the capability of lifting these restrictions on an exception basis, at the request and approval of the employee's manager. Exceptions to this include, for example, purchases of pizza for day care and kids camp programs.</p> <p>The Policy & Compliance Unit has put in place an effective compliance program. Prior to July 2004, compliance review of purchasing card and payment without reference transactions were conducted on a cyclical basis by Organizational Units. A review of purchasing card transactions for May-December 2004 was completed at the end of the 2004 fiscal year.</p> <p>Monthly reviews are now carried out on a random sample of transactions. Anomaly reports are forwarded to the respective manager for follow-up.</p> <p>Cardholders are required to sign the "Employee Responsibilities for the Use of Purchasing Card" document. This document signifies the employee's agreement to comply with the City's policies and procedures pertaining to purchasing goods and services.</p> <p>Cardholder responsibilities are also outlined in the Purchasing Card</p>

2003 Audit of the Corporate Card and Purchasing Card Program Status of Implementation of Recommendations				
	Findings	Recommendation	Management Response to the Audit of 2003	Action Taken Since the Audit as Stated by Management and Verified during Our Review
				Procedures readily available on MOE.
5.2	Management procedures over individual cards need to be improved.	That Management ensures the card use in their areas matches their business requirements and establishes appropriate accountability.	<i>Finance</i> Finance has cancelled cards that were not activated and is currently reviewing cards that have not been utilized for protracted periods and cancelling any cards that remain unused. During 2003 Finance will take a proactive stance in identifying card usage in the Corporate Card Program and implementing changes where necessary. New capabilities in the Purchasing Card program will enhance our ability to focus the use of the cards to the needs of the individual cardholder.	Managers are encouraged to periodically review the cardholder limits established within their areas of responsibility. Limits are initially established at \$2,000 (single transaction) and \$5,000 (monthly limit) but can be adjusted at the request of the manager.
5.3	Testing of transactions found instances of non-compliance. Signed cardholder agreements are not on file for all active cards.	That Finance review all cardholder records to ensure a current, signed agreement is on file.	<i>Finance</i> Finance concurs with this recommendation. Cardholders will be required to sign the cardholder agreement before receiving a new card. Finance will obtain signed agreements for any missing existing cardholders by March 31 st . Any signed agreements not received will have the cards disabled.	The requirement for the cardholder to sign the cardholder agreement is stated in the Purchasing Card Procedures. Existing cardholders are required to sign the cardholder agreement at the time cardholder change requests are actioned.
	Monthly statements on file contain a number of deviations from the policy. Credit card purchases did not always comply with the terms of the Standing Offers.	That Finance better monitor and educate cardholders to ensure that suppliers with Standing Offers are used and the appropriate discounts are obtained.	<i>Finance</i> A Standing Offer is not a contractual agreement. It is an offer from a supplier, which allows the City to purchase goods at a prescribed price. No contract exists until the City places a call-up against the Standing Offer. In addition, the supplier can withdraw their offer any time prior to a call-up being issued. However, since these Standing Offers should represent the best pricing available, cardholders should be encouraged to use them whenever it can be accommodated within operational needs. Finance will continue to educate staff regard the use of Standing Offers and monitor this matter on a regular basis.	Most Standing Offers, with the exception of Information Technology suppliers, are available by type of good or service on Moe. Requirements for the use of Standing Offers are stipulated in the City's Purchasing By-Law. The Policy & Compliance Unit routinely reports on instances where Standing Offers have not been used, as part of its monthly review of purchasing card transactions.
	Monthly transaction and credit limits are	That Finance ensures controls are	<i>Finance</i>	The Policy & Compliance Unit monitors

2003 Audit of the Corporate Card and Purchasing Card Program Status of Implementation of Recommendations				
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	exceeded in some cases.	<p>in place to enforce the maximum transaction limit of \$10,000 as authorized by the Purchasing By-law.</p> <p>That Finance amend the card policy to provide more detailed guidance to Managers about setting up proper transactions and monthly limits when authorizing the issuance of a credit card.</p> <p>That consideration be given to amending the Purchasing By-law to allow the General Manager of Corporate Services to authorize specialized circumstances provided effective compensatory controls are in place.</p>	<p>Finance concurs with the recommendation regarding transaction limit control and it will be fully implemented by March 2003.</p> <p>In order to meet operational requirements, it may be necessary for some cardholders to have a monthly limit greater than \$10,000. There are existing Standing Offers where the supplier prefers to be paid by credit card and therefore selected cardholders may need monthly limits that exceed the normal limits. Finance will commence work with Management immediately to ensure that transactions and limits are established that meet the operational requirements and the revised policy will highlight this issue.</p>	<p>the maximum transaction limit of \$10,000 as part of its monthly review of purchasing card transactions.</p> <p>The Purchasing card procedures have been written and strengthened. Training sessions are available to all cardholders and managers.</p> <p>The Purchasing Card Procedures currently stipulate that "purchasing limits shall be based on the normal operating needs of the cardholder and must be approved by the Director or designate"</p> <p>For certain staff their jobs require the purchase of entertainment type purchases. Recreation staff that run day camp would be an example. To obtain an exemption staff requires the approval of their director. The Director would seek the approval Treasury who authorizes the exemption.</p>
			<p>Finance will review those transactions that have exceeded the \$10,000 limit to determine whether the purchasing by-law needs revision for these cases. The Purchasing By-law currently permits the Directors and General Managers to make purchases greater than \$10,000 under special circumstances. If the purchases in question are not contemplated under this section consideration for a change in the by-law will be brought forward within the next three months.</p>	<p>This is now part of the Compliance Unit monthly testing criteria and there are System controls in place. There are some staff that have transaction limits which exceed the standard \$5,000 delegation.</p>
	Purchases are being split into multiple transactions in order to use cards (including the purchase of computers with cards).	<p>That Managers as part of their review ensure that all requirements of the Purchasing By-law are observed.</p>	<p><i>Finance</i></p> <p>Finance supports the recommendation relating to segregation of duties and the splitting of transactions. This matter will be highlighted in the revised policy</p>	<p>The Policy & Compliance Unit monitors the occurrences of potential splitting as part of its monthly purchasing card transaction review. Computer purchases</p>

2003 Audit of the Corporate Card and Purchasing Card Program Status of Implementation of Recommendations				
	Findings	Recommendation	Management Response to the Audit of 2003	Action Taken Since the Audit as Stated by Management and Verified during Our Review
			document now in progress. The purchasing card reporting capabilities will assist Finance in identifying these instances.	continue to be made using cards contrary to audit recommendations. Computer purchases are not explicitly prohibited by the current policy, but according to management, specific controls are in place to limit such transactions to authorized personnel.
	Some personal expenditures were found, however they were very limited. The policy requirement to obtain quotations for purchases over \$2,000 is not being observed.	That Finance amend the card policy to require cardholders to include documentation to substantiate the Purchasing By-law requirement to obtain three quotes for purchases greater than \$2,000.	<i>Finance</i> This requirement is included in the revised Corporate Card policy currently being developed as a mandatory requirement.	Purchasing card procedures (effective March 31, 2003) state that: "Where a purchase exceeds \$2,000, the cardholder shall include evidence that a minimum of three verbal or written quotes were obtained unless the purchase was made from an existing Standing Offer".
	Cards are being shared in some work units in contravention of the policy.	That all Managers ensure that the practice of sharing cards is immediately discontinued and that Purchasing Cards be issued to individuals as required.	<i>Finance</i> In some cases the sharing was a result of not increasing the number of cards being used in work areas. Finance will communicate with Managers on the policy of sharing cards and, as part of the overall monitoring of the program, identify any situations where this practice continues and advise the individual to discontinue the practice. A cardholder is responsible and accountable for all activity on their card.	There has been a multiphase approach to this problem mainly communications and follow-up. First the procedures were strengthened. The policy was distributed to all. In training sessions it is emphasized that card sharing is not allowed. The FSU, purchasing card administrator and compliance staff all look to identify instances of card sharing. When a violation is detected, the FSU manager is informed of all major and minor violations for follow-up and the cardholder is notified of major violations.
5.4	Additional policy guidance is needed in some areas. The City has not yet developed and implemented a harmonized travel policy.	That a harmonized travel policy be developed and implemented as a priority. That the need for cash advances under the Corporate Card Program be reviewed and additional guidelines be	<i>Human Resources</i> A new travel policy to be used uniformly across the City is currently being developed and will be completed by the end of February. <i>Finance</i> The issue of cash advances will be reviewed as part of the Corporate Card Program policy review and update. When implementing SAP initially, the former Region	A Travel Policy, effective February 28, 2003 is in place and readily available on Moe.

2003 Audit of the Corporate Card and Purchasing Card Program Status of Implementation of Recommendations				
	Findings	Recommendation	Management Response to the Audit of 2003	Action Taken Since the Audit as Stated by Management and Verified during Our Review
		developed to clearly identify the circumstances, if any, where advances can be used.	tried to eliminate the inclusion of payments to staff within the accounts payable function. This was identified as a best practice at that time. All payments or reimbursements to staff were to flow through the payroll system. The new payroll system design calls for a similar practice. Due to that restriction cash advances have been allowed within the credit card program. This matter will again be reviewed to determine the most effective manner of providing cash advances, where and when required.	
	There is a high level of spending for catering in local restaurants, additional policy guidance should be implemented to limit these expenses	<p>That Human Resources establish clearer hospitality policy and guidelines on restaurant, alcohol and catering expenditures to ensure consistent practices across the Corporation.</p> <p>That Finance establishes compliance procedures to require all in-town restaurant and catering expenses to be supported by information on purpose of meeting, attendees and details of the meals purchased.</p>	<p><i>Human Resources</i> Human Resources will complete a policy on Hospitality, Gifts and Entertainment in early March.</p> <p><i>Finance</i> Finance will establish the necessary compliance procedures to support this policy.</p>	<p>A Hospitality Policy and a Gifts and Entertainment Policy, effective April 14, 2003 are in place and readily available on MOE.</p> <p>A compliance review has been performed for May/03 –Apr/04 transactions and a second review for Jan/05-Jun/05 is scheduled for completion in Oct/05 by the Compliance Unit.</p>
	Additional guidelines are needed to define when gifts to employees can be made from City funds.	That Human Resources develop additional guidelines to clearly define the situations, if any, where gifts and commemorations can be made from City funds.	<p><i>Human Resources</i> Guidelines to clearly define the situation, if any, where gifts and commemorations can be made from City funds will be addressed in the Hospitality, Gifts and Entertainment policy to be completed in early March.</p>	A Gifts and Entertainment Policy, effective April 14, 2003 is in place and includes policy direction on accepting gifts, hospitality or other benefits.