

CITY OF VAUGHAN

**EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 27, 2017**

Item 3, Report No. 6, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on June 27, 2017.

**3 INTERNAL AUDIT REPORT – EMERGENCY, SOLE AND SINGLE SOURCE PROCUREMENT**

The Finance, Administration and Audit Committee recommends:

- 1) That the recommendation contained in the following report of the Director of Internal Audit, dated June 6, 2017, be approved; and
- 2) That Communication C6 presentation material entitled, “*Emergency, Sole and Single Source Procurement Audit*”, be received.

**Recommendation**

The Director of Internal Audit recommends:

1. That the Internal Audit Report on the Audit of Emergency, Sole and Single Source Procurement be received.

**Contribution to Sustainability**

Internal Audit activities and reports contribute to the sustainability of the City by providing advice and assurance that controls supporting the delivery of services and programs are effective. Longer term sustainability needs the support of good, efficient risk mitigation strategies. Internal Audit can provide support for that sustainability by providing independent advice and assurance.

**Economic Impact**

There are no direct economic impacts associated with this report.

**Communications Plan**

Not applicable.

**Purpose**

To present to the Finance, Administration and Audit Committee the Internal Audit Report on the Audit of Emergency, Sole and Single Source Procurement.

**Background - Analysis and Options**

The City’s Consolidated Purchasing Policy (PS – 003) outlines the authorization levels for all purchases of goods, services and construction based on specific criteria and thresholds. The City’s purchasing policy was implemented in 2012 and it is the governing document for the scope period of this audit.

In 2016, Procurement Services processed 484 transactions, resulting in a procurement value of \$95.6 million. An additional \$6.7 million was procured as LVP and \$1.9 million in P-Card purchases.

Of the \$95.6 million in purchases, there were 111 sole and single source transactions valued at \$5.1 million. Sole sourcing occurs when there is only one known vendor who is able to provide a good or service. Single sourcing occurs when there may be more than one source of supply in the open market but only one of these is considered on the grounds that it is more cost effective or beneficial to the City.

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### **EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 27, 2017**

#### Item 3, Finance Report No. 6 – Page 2

The Consolidated Purchasing Policy defines emergency to mean an event or circumstance where the immediate purchase of goods, services or construction is necessary to prevent or alleviate serious delay, a threat to public health, safety or welfare, the disruption of essential services or serious damage to public or private property or any other expenditure that is necessary to respond to any such event and may include, but is not limited to, an emergency declared under the Emergency Management and Civil Protection Act. Of the \$95.6 million in purchases that were processed by Procurement Services, there were 36 emergency transactions valued at \$527,067.

Over the last few years, management has made several improvements to the procurement process. These changes include the successful implementation of the Purchasing Card program which has reduced administrative effort and improved flexibility and control over the lower dollar value spend. Additionally, the implementation of a Bids and Tenders portal has enabled automated notifications of bid opportunities and online preview and download of bid documents by supply community. The establishment of annual procurement planning process in collaboration with client departments has also allowed for increased focus on customer needs and better workload management.

The Procurement Modernization project is one of the ten Service Excellence Strategic Initiatives which supports improving the City of Vaughan's operational performance to enable the delivery of Term of Council priorities. The purpose of this project is to transform Vaughan's procurement function by modernizing business processes, reviewing governance, policies and capacity, and leveraging technology. As part of the Procurement Modernization initiative, a new procurement policy was approved by Council on March 21, 2017.

The objective of the audit was to evaluate the adequacy and effectiveness of the internal controls, processes and procedures in place to mitigate risks associated with emergency, sole, and single source procurement.

The audit of Emergency, Sole and Single Source Procurement was requested and approved by Council on November 15, 2016.

#### **Relationship to Term of Council Service Excellence Strategy Map (2014-2018)**

This report supports the Term of Council Priority: Continue to Advance a Culture of Excellence in Governance, and the Service Excellence Initiative: Demonstrating Value for Money.

#### **Regional Implications**

Not applicable.

#### **Conclusion**

Nearly all of the transactions sampled as part of this audit were compliant to policy. However, this does not necessarily mean that the most appropriate procurement method was chosen based on the justification provided. Improvements are required to ensure that risks related to these types of purchases are effectively and efficiently mitigated. The following opportunities were identified:

- Developing and implementing a City wide strategic sourcing framework.
- Expanding analysis and reporting of spend data with the purpose of highlighting procurement performance, trends, opportunities and non-compliance issues in order to strengthen overall procurement oversight.

**CITY OF VAUGHAN**

**EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 27, 2017**

Item 3, Finance Report No. 6 – Page 3

- Providing greater oversight and scrutiny over non-competitive purchases to ensure appropriate procurement methods are used.

We will follow up on the status of outstanding Management Action Plans related to this audit and will report the status to the Finance, Administration and Audit Committee.

**Attachment**

1. Internal Audit Report – Audit of Emergency, Sole and Single Source Procurement

**Report prepared by:**

Mike Petrilli, CPA CGA CIA  
Audit Project Manager

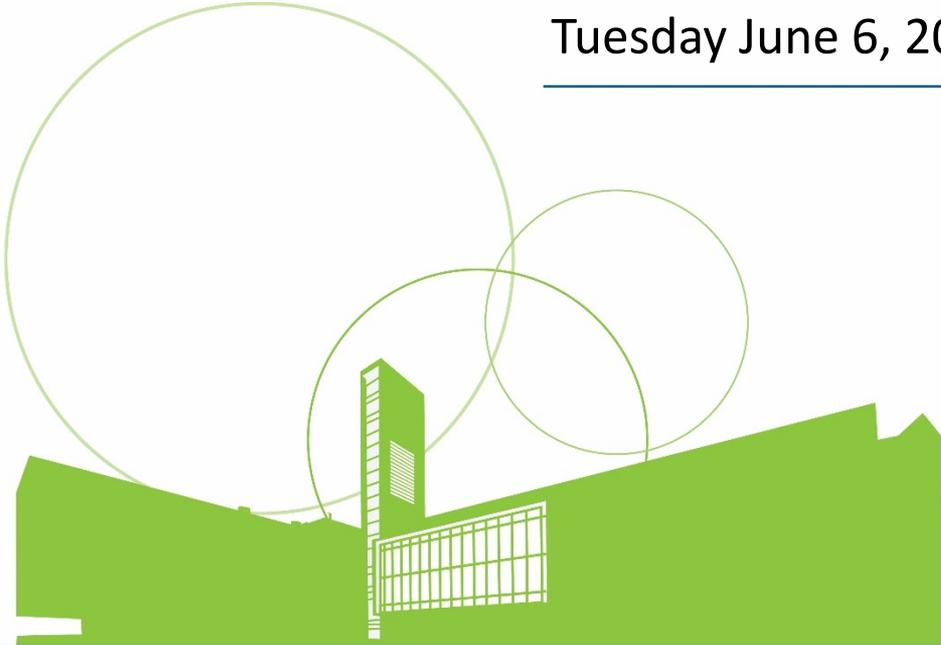
(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

C 6  
COMMUNICATION  
FAA - June 6, 2017  
ITEM - 3

# Emergency, Sole and Single Source Procurement Audit

Tuesday June 6, 2017

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CANADA 150



# Today's Presentation

- Audit Objective, Scope and Methodology
- Audit Conclusion
- Audit Observations
- Management Action Plans
- Next Steps
- Questions

# Audit Objective

- To evaluate the adequacy and effectiveness of the internal controls, processes and procedures in place to mitigate risks associated with emergency, sole, and single source procurement

# Audit Scope & Methodology

- Review of existing Policies, Procedures & Guidelines
- Staff interviews
- Data analyses and physical sampling of emergency, single and sole source procurement records
- Review of justification, coding and approvals
- Reporting and performance management
- Review of January 2016 – December 2016 emergency, sole and single source procurement activities

# Audit Conclusion

- Nearly all of the transactions sampled as part of this audit were compliant to policy. However, this does not necessarily mean that the most appropriate procurement method was chosen based on the justification provided. Improvements are recommended to ensure that risks related to these types of purchases are effectively and efficiently mitigated

# Issues and Observations

1. Develop and implement a City wide strategic sourcing framework
2. Expand analysis and reporting of spend data with the purpose of highlighting procurement performance, trends, opportunities and non-compliance issues in order to strengthen overall procurement oversight
3. Provide greater oversight and scrutiny over non-competitive purchases to ensure appropriate procurement methods are used

# Management Action Plans

1. Developing and implementing a city wide strategic sourcing framework
  - Procurement Services is working towards the alignment of its staff to be strategic partners in service delivery
  - In collaboration with client departments, Procurement Services is moving towards a category management framework to accommodate the specific requirements of each department in a more strategic manner and to drive value for money for the City
  - This includes development of annual procurement plans, comprehensive spend analysis, corporate wide consolidation of requirements, use of long term agreements and vendor of records

# Management Action Plans

## 2. Expanding analysis and reporting of spend data

- Procurement Services will continue providing guidance to the client departments with respect to appropriate procurement processes and to support informed decision making
- Spend data is being captured through multiple sources. This data is used to develop monthly procurement reports in order to analyze and monitor spend patterns
- To strength oversight over procurement activities, new analytical reports are being developed and will be shared with staff

# Management Action Plans

3. Providing greater oversight and scrutiny over non-competitive purchases to ensure appropriate procurement methods are used
  - New Corporate Procurement Policy provides greater clarity and stronger criteria for client departments to determine if a purchase qualifies as a single source, sole source or emergency purchase
  - Procurement Services will continue to work with departments in the development of Procurement Plans, with a more strategic focus, in order to determine the most appropriate procurement methodology. This process started on April 1, 2017

# Next Steps

- Action plans have been developed
- Implementation is underway
- Internal Audit will follow up and report on the status of these action plans

# Questions?

**INTERNAL AUDIT REPORT – EMERGENCY, SOLE AND SINGLE SOURCE PROCUREMENT**

**Recommendation**

The Director of Internal Audit recommends:

1. That the Internal Audit Report on the Audit of Emergency, Sole and Single Source Procurement be received.

**Contribution to Sustainability**

Internal Audit activities and reports contribute to the sustainability of the City by providing advice and assurance that controls supporting the delivery of services and programs are effective. Longer term sustainability needs the support of good, efficient risk mitigation strategies. Internal Audit can provide support for that sustainability by providing independent advice and assurance.

**Economic Impact**

There are no direct economic impacts associated with this report.

**Communications Plan**

Not applicable.

**Purpose**

To present to the Finance, Administration and Audit Committee the Internal Audit Report on the Audit of Emergency, Sole and Single Source Procurement.

**Background - Analysis and Options**

The City's Consolidated Purchasing Policy (PS – 003) outlines the authorization levels for all purchases of goods, services and construction based on specific criteria and thresholds. The City's purchasing policy was implemented in 2012 and it is the governing document for the scope period of this audit.

In 2016, Procurement Services processed 484 transactions, resulting in a procurement value of \$95.6 million. In addition, there were \$1.9 million in P-Card purchases and \$6.7 million in LVP transactions.

Of the \$95.6 million in purchases, there were 111 sole and single source transactions valued at \$5.1 million. Sole sourcing occurs when there is only one known vendor who is able to provide a good or service. Single sourcing occurs when there may be more than one source of supply in the open market but only one of these is considered on the grounds that it is more cost effective or beneficial to the City.

The Consolidated Purchasing Policy defines emergency to mean an event or circumstance where the immediate purchase of goods, services or construction is necessary to prevent or alleviate serious delay, a threat to public health, safety or welfare, the disruption of essential services or serious damage to public or private property or any other expenditure that is necessary to respond to any such event and may include, but is not limited to, an emergency declared under the Emergency Management and Civil Protection Act. Of the \$95.6 million in purchases that were processed by Procurement Services, there were 36 emergency transactions valued at \$527,067.

Over the last few years, management has made several improvements to the procurement process. These changes include the implementation of the Purchasing Card program which has reduced administrative effort and improved flexibility and control over the lower dollar value spend. Additionally, the implementation of a Bids and Tenders portal has enabled automated notifications of bid opportunities and online preview and download of bid documents by supply community. The establishment of an annual procurement planning process in collaboration with client departments has also allowed for increased focus on customer needs and better workload management.

The Procurement Modernization project is one of the ten Service Excellence Strategic Initiatives which supports improving the City of Vaughan's operational performance to enable the delivery of Term of Council priorities. The purpose of this project is to transform Vaughan's procurement function by modernizing business processes, reviewing governance, policies and capacity, and leveraging technology. As part of the Procurement Modernization initiative, a new procurement policy was approved by Council on March 21, 2017.

The objective of the audit was to evaluate the adequacy and effectiveness of the internal controls, processes and procedures in place to mitigate risks associated with emergency, sole, and single source procurement.

The audit of Emergency, Sole and Single Source Procurement was requested and approved by Council on November 15, 2016.

### **Relationship to Term of Council Service Excellence Strategy Map (2014-2018)**

This report supports the Term of Council Priority: Continue to Advance a Culture of Excellence in Governance, and the Service Excellence Initiative: Demonstrating Value for Money.

### **Regional Implications**

Not applicable.

### **Conclusion**

Nearly all of the transactions sampled as part of this audit were compliant to policy. However, this does not necessarily mean that the most appropriate procurement method was chosen based on the justification provided. Improvements are recommended to ensure that risks related to these types of purchases are effectively and efficiently mitigated. The following opportunities were identified:

- Developing and implementing a City wide strategic sourcing framework.
- Expanding analysis and reporting of spend data with the purpose of highlighting procurement performance, trends, opportunities and non-compliance issues in order to strengthen overall procurement oversight.
- Providing greater oversight and scrutiny over non-competitive purchases to ensure appropriate procurement methods are used.

Internal Audit will follow up on the status of outstanding Management Action Plans related to this audit and will report the status to the Finance, Administration and Audit Committee.

### **Attachment**

1. Internal Audit Report – Audit of Emergency, Sole and Single Source Procurement

**Report prepared by:**

Mike Petrilli, CPA CGA CIA  
Audit Project Manager

Respectfully submitted,

Kevin Shapiro CIA CFE CRMA  
Director, Internal Audit



# INTERNAL AUDIT REPORT

## **Emergency, Sole and Single Source Procurement Audit**

June 2017

## **INTERNAL AUDIT REPORT**

### **EMERGENCY, SOLE AND SINGLE SOURCE PROCUREMENT AUDIT**

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#### **CONCLUSION AND SUMMARY**

The City's Corporate Procurement Policy establishes the guiding principles for procuring goods, services and construction. It is expected that the City should receive best value for money spent while demonstrating the public procurement principles of fairness, openness, transparency and accountability. Competitive procurement processes should be used wherever possible while ensuring that non-competitive procurement is used only in narrowly defined circumstances.

Nearly all of the transactions sampled were compliant to policy. However, this does not necessarily mean that the most appropriate procurement method was chosen based on the justification provided. Improvements are recommended to ensure that risks related to these types of purchases are effectively and efficiently mitigated. The following opportunities were identified:

- Developing and implementing a City wide strategic sourcing framework.
- Expanding analysis and reporting of spend data with the purpose of highlighting procurement performance, trends, opportunities and non-compliance issues in order to strengthen overall procurement oversight.
- Providing greater oversight and scrutiny over non-competitive purchases to ensure appropriate procurement methods are used.

Over the last few years, management has made several improvements to the City's procurement processes, including the implementation of the Purchasing Card program, the execution of a Bids and Tenders portal, the establishment of an annual procurement planning process and the development of a new corporate wide procurement policy.

Moving away from a reactive, tactical procurement process to a City wide, strategic sourcing framework will further enhance procurement governance, efficiency and effectiveness. Developing a comprehensive spend analysis program will create a better understanding of the spending habits of the entire City. Data analytics will help identify opportunities where vendors of record (VOR) and co-operative purchasing agreements can be further leveraged to expedite the procurement of goods and services from prequalified vendors. Establishing vendor performance monitoring programs will help drive procurement transparency, productivity and vendor accountability.

The audit identified numerous vendors with a significant number of Low Value Purchase (LVP) transactions as well as sole and single source transactions. In some cases, vendors had cumulative non-competitive purchases that exceeded \$100,000. The practice of considering just one vendor for work when the need is urgent or when a vendor has specialized expertise may save time in procuring goods and services. However, it lacks the competitive bidding that can drive down cost.

Monitoring and reporting are two key activities in a controlled environment. They help ensure that inconsistencies or irregularities in the procurement process are identified quickly and

## **INTERNAL AUDIT REPORT**

### **EMERGENCY, SOLE AND SINGLE SOURCE PROCUREMENT AUDIT**

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resolved to support a fair and open procurement process. The success of any procurement management program is largely dependent upon the ability to access, organize, and analyze spend data. Management reporting should include complete and reliable data for informed decision-making.

We will follow-up on the status of outstanding Management Action Plans related to this audit and will report the status to the Finance, Administration and Audit Committee.

# INTERNAL AUDIT REPORT

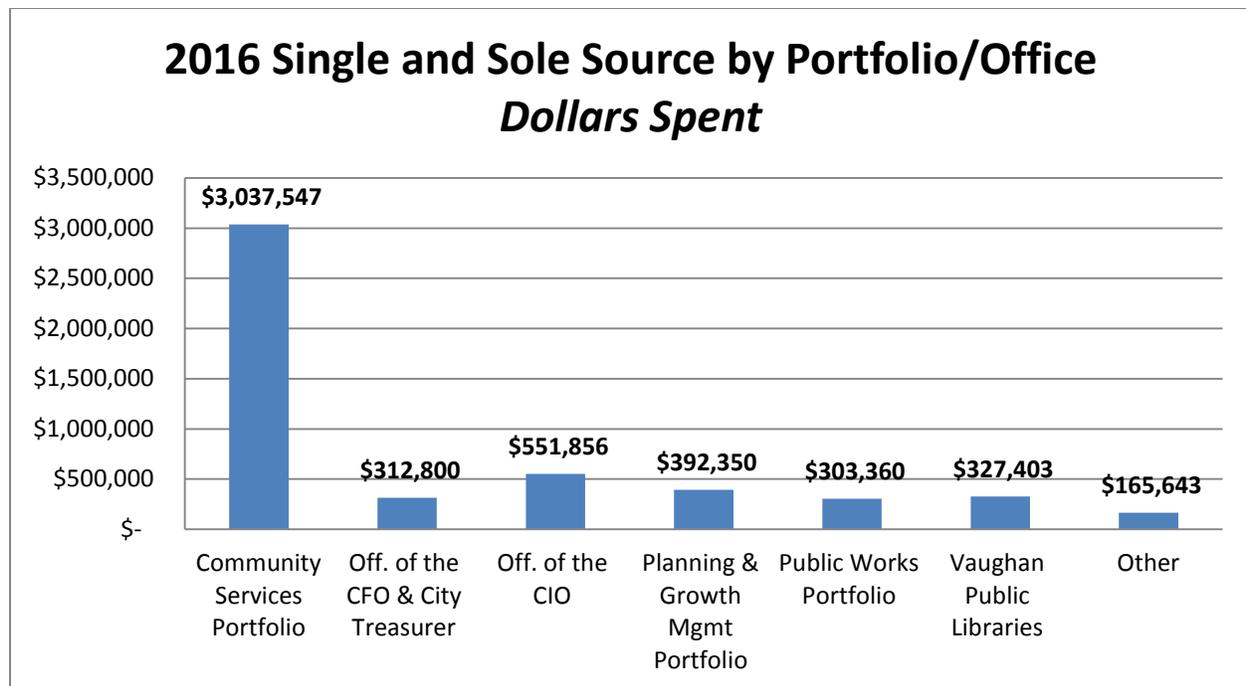
## EMERGENCY, SOLE AND SINGLE SOURCE PROCUREMENT AUDIT

### BACKGROUND

The City's Consolidated Purchasing Policy (PS – 003) outlines the authorization levels for all purchases of goods, services and construction based on specific criteria and thresholds. The City's purchasing policy was implemented in 2012 and it is the governing document for the scope period of this audit.

In 2016, Procurement Services processed 484 transactions, resulting in a procurement value of \$95.6 million. In addition, there were \$1.9 million in P-Card purchases and \$6.7 million in LVP transactions.

Of the \$95.6 million in purchases, there were 111 sole and single source transactions valued at \$5.1 million. Sole sourcing occurs when there is only one known vendor who is able to provide a good or service. Single sourcing occurs when there may be more than one source of supply in the open market but only one of these is considered on the grounds that it is more cost effective or beneficial to the City.

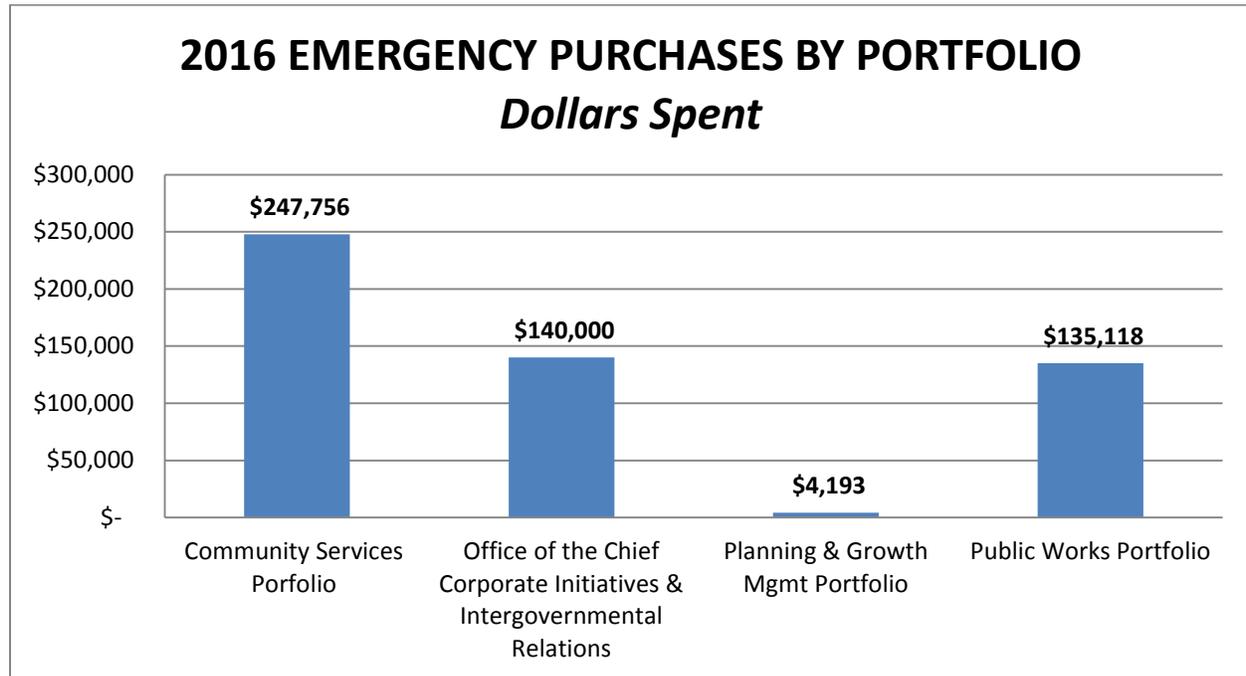


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**INTERNAL AUDIT REPORT**

**EMERGENCY, SOLE AND SINGLE SOURCE PROCUREMENT AUDIT**

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Over the last few years, management has made several improvements to the procurement process. These changes include the implementation of the Purchasing Card program, which has reduced administrative effort and improved flexibility and control over the lower dollar value spend. Additionally, the implementation of a Bids and Tenders portal has enabled automated notifications of bid opportunities and online preview and download of bid documents by supply community. The establishment of an annual procurement planning process in collaboration with client departments has also allowed for increased focus on customer needs and better workload management.

The Procurement Modernization project is one of the ten Service Excellence Strategic Initiatives which supports improving the City of Vaughan's operational performance to enable the delivery of Term of Council priorities. The purpose of this project is to transform Vaughan's procurement function by modernizing business processes, reviewing governance, policies and capacity, and leveraging technology. As part of the Procurement Modernization initiative, a new procurement policy was approved by Council on March 21, 2017. One of the objectives of the new policy was to provide greater clarity and stronger criteria for client departments to determine if a purchase qualifies as a single source, sole source or emergency purchase.

## **INTERNAL AUDIT REPORT**

### **EMERGENCY, SOLE AND SINGLE SOURCE PROCUREMENT AUDIT**

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#### **OBJECTIVES AND SCOPE**

The audit of Emergency, Sole and Single Source Procurement was requested and approved by Council on November 15, 2016.

The objective of the audit was to evaluate the adequacy and effectiveness of the internal controls, processes and procedures in place to mitigate risks associated with emergency, sole, and single source procurement.

The audit approach included data analyses of emergency, single and sole source procurements, a review of the City's current and planned policies, procedures and guidelines, volume of awarded contracts, criteria and justification for coding of procurement transactions, approval of transactions, reporting and performance management.

The scope of this audit covered emergency, sole and single source procurement activities for the period of January 2016 to December 2016.

**Auditor and Author: Mike Petrilli, CPA, CGA, CIA**

**Director: Kevin Shapiro CIA, CFE, CRMA**

## INTERNAL AUDIT REPORT

### EMERGENCY, SOLE AND SINGLE SOURCE PROCUREMENT AUDIT

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#### MANAGEMENT UPDATE ON PROCUREMENT MODERNIZATION

Management agrees with the audit findings and recommendations, as the audit recommendations are consistent with the recommendations identified during the procurement modernization current assessment review and addressed through the procurement modernization implementation plan approved by Council on April 19, 2016.

Vaughan is undergoing tremendous growth and transformation, which presents a valuable opportunity to anticipate and prepare for the evolving future needs of the City. The increasing volume and complexity of procurement activity as a result of this rapid growth is the key driver for change.

On October 11, 2016 Council endorsed the overall Procurement Strategy including the new Procurement Services Strategy Map, Vision, Mission, Values and Strategic Priorities. Based on the information gathered through stakeholder consultations, review of background documents, quantitative data analysis, and a continuous improvement workshop with staff, a long-term roadmap to modernize the corporate procurement function has been developed.

The implementation of the modernization and transformation roadmap will result in streamlined and technology-enabled processes that will help improve the City's ability to deliver projects on time and on budget. Additionally, it will enhance open, fair and transparent procurement policies and improve awareness and education across the City and the supplier community in order to reduce the risk of non-compliance. The City will also realize financial benefits over the next three to five years through a focus on strategic spend management.

The modernization and transformation of the corporate procurement function will improve the way we acquire goods, services and construction, help ensure value for money and contribute to the City's long-term financial sustainability. Through detailed analysis and stakeholder consultation, a long-term roadmap which will help drive efficiencies that contribute to departmental savings through strategic sourcing, streamlined and technology-enabled processes and reduced corporate procurement cycle time. The new Procurement Services strategic direction will help the department become a strategic partner in service delivery and respond to the City's growth and development through procurement excellence. It will drive value for money for the City and its citizens through leading procurement practices. Procurement Services, in collaboration with City departments, have implemented quick wins, and will continue to carry out the recommendations provided under the long-term roadmap.

#### **Proposed Implementation Plan and Timelines**

Based on the long-term modernization and transformation roadmap, the proposed implementation plan will focus on carrying out eight overarching recommendations. The estimated timeline of the implementation plan, which is subject to the availability of internal and external resources, is outlined below:

- 1. Procurement Vision, Mission and Strategy:** Develop and formalize the vision, mission and strategic priorities for the Procurement Services department linked to the City's service excellence strategy.

## INTERNAL AUDIT REPORT

### EMERGENCY, SOLE AND SINGLE SOURCE PROCUREMENT AUDIT

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**Start:** Q3-16  
*Completed*

**Estimated Completion:** Q4-16

- 2. Operating Model and Organizational Structure:** Design and implement a new operating model and organizational structure for the Procurement Services department.

**Start:** Q3-16

**Estimated Completion:** Q4-18

- 3. Re-engineer Enterprise Procurement Processes:** Re-engineer enterprise procurement processes, tools and templates to drive transparency and accountability, and clarify roles and responsibilities throughout the process.

**Estimated Start:** Q1-17

**Estimated Completion:** Q4-19

- 4. Procurement Policy and Compliance Management:** Re-engineer and broadly communicate procurement policies and develop and implement a compliance management framework to mitigate risk for the City.

**Start:** Q3-16

**Estimated Completion:** Q2-17

*Corporate Policy implemented, development of Procedures is underway.*

- 5. Procurement Training and Development:** Develop and implement a procurement training program to improve capabilities.

**Start:** Q3-16

**Estimated Completion:** Ongoing

*Development of training material and program is underway.*

- 6. Value for Money Analysis and Implementation:** Conduct spend and market analysis and design and implement a category management strategy to drive value for money for the City.

**Estimated Start:** Q1-17

**Estimated Completion:** Q4-19

*Data collection, analysis and reporting implemented. Ongoing*

- 7. Technology Strategy and Roadmap:** Develop an IT strategy and roadmap designed to expand the use of technology to better enable procurement processes, reduce cost and mitigate risk for the City.

**Estimated Start:** Q4-16

**Estimated Completion:** Q4-19

*Pilot E-submissions program implemented. Technology enhancements will continue.*

- 8. Program and Change Management:** Implement a program management, change management and communications strategy and approach to successfully manage the enterprise-wide transformation.

**Start:** Q3-16

**Estimated Completion:** Ongoing

*Change management and communications strategy being developed. Ongoing*

## INTERNAL AUDIT REPORT

### EMERGENCY, SOLE AND SINGLE SOURCE PROCUREMENT AUDIT

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#### DETAILED REPORT

##### **1. *The City Should Focus on Strategic Procurement Activities***

Over the last few years, management has made several improvements to the City's procurement processes, including the implementation of the Purchasing Card program, the execution of a Bids and Tenders portal, the establishment of an annual procurement planning process and the development of a new corporate wide procurement policy.

Further work is still required to continue to enhance procurement governance, efficiency and effectiveness. Currently, the City does not have a corporate wide strategic framework in place. The procurement methodology in place today is generally reactive, responding to requisitions or other unexpected requirements from various departments. This increases the risk of increased procurement turnaround times, which often leads to frustration for both Procurement Services and the requisitioning departments.

Opportunities exist to drive further efficiencies in the City's procurement activities through a focus on strategic sourcing. This includes developing a comprehensive spend analysis program to better understand the spending habits of the entire City, further leveraging VOR's and co-operative purchasing agreements and establishing vendor performance monitoring programs in order to drive procurement transparency, productivity and vendor accountability.

In taking a more strategic approach to procurement, there will be a need for improved spend analysis and the identification of goods and services for which strategic sourcing should be utilized. The process involves collecting, classifying and analyzing expenditure data. This can provide the City with the basis for identifying opportunities and risks, providing the foundation for cost reduction initiatives and improving the value received from vendors.

As part of the Procurement Modernization initiative, a new Corporate Procurement Policy was approved by Council on March 21, 2017. Unlike the previous Consolidated Purchasing Policy, this new policy makes reference to establishing VOR's. Some VOR agreements are already in place, however opportunities exist to fully leverage this procurement channel through spend analysis, providing training and developing procedures to optimize the VOR program. VOR's can improve efficiency by having pre-established procurement terms and conditions. They can provide consistency and economies of scale, while eliminating duplication across repetitive and standardized purchases.

Although the City has participated in co-operative agreements in the past, our review of emergency, sole and single source transactions found that there may be further opportunities to enter into co-operative procurement agreements, especially in situations where there is only one capable vendor. Municipalities can find it advantageous to band together into joint purchasing networks in order to secure more favorable purchasing conditions.

The City does not have a robust corporate wide framework for formal vendor performance monitoring. While the new Corporate Procurement Policy speaks to the development of a

## **INTERNAL AUDIT REPORT**

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vendor performance framework, details regarding the execution of the program have not been established. At the strategic level, a vendor performance framework will allow the City to align its vendor performance program with the Term of Council priorities and risk management strategies. The framework will assist the City in operating in a cohesive manner and provide corporate wide information for decision making.

Establishing a corporate wide strategic sourcing framework will help mitigate the risk of inappropriate procurement practices, vendor disputes and higher cost of acquisition.

#### **Recommendation**

We recommend that:

- Management develop a City wide strategic sourcing framework which includes:
  - The development of a comprehensive spend analysis program to better understand the spending habits of the entire City, drive efficiencies by selecting the most appropriate procurement method and be a more strategic procurement function.
  - The development of procedures and guidelines regarding the establishment, use and analysis of VOR's.
  - The development of guidelines to help leverage co-operative agreements.
  - A robust vendor performance framework.

#### **Management Action Plan**

Management agrees with the recommendations, as the audit recommendations are consistent with the recommendations identified during the procurement modernization current assessment review. Procurement Services is working towards the alignment of its staff to be strategic partners in service delivery. In collaboration with client departments, Procurement Services is moving towards a category management framework to accommodate the specific requirements of each department in a more strategic manner and to drive value for money for the City. This includes development of annual procurement plans, comprehensive spend analysis, corporate wide consolidation of requirements, use of long term agreements and vendor of record arrangements.

Procurement Services will continue providing guidance to the client departments with respect to appropriate procurement processes. A comprehensive spend analysis program has been implemented that captures spend data through multiple sources (including P-Card and Low Dollar Module purchases). This information is analyzed and used in monthly reporting to review procurement history. This analysis will help departments understand their spending patterns and assist in selecting the most effective procurement methods (estimated completion Q4-2017).

## **INTERNAL AUDIT REPORT**

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The new Corporate Procurement Policy PS003 Section 4.1.11 provides the necessary framework and guidelines to establish and use VORs. Detailed VOR procedures are being developed and opportunities are being explored to establish new VOR agreements with the vendor community (estimated completion to develop procedures Q4-2017).

The new Corporate Procurement Policy PS003 Section 13 provides the necessary framework to leverage Co-operative agreements. Procedures that will help leverage the use of Co-operative agreements are in development and Procurement Services will continue to work with City departments to help identify opportunities to use Co-operative agreements (estimated completion to develop procedures Q4-2017).

The new Corporate Procurement Policy PS003 Section 8 provides the necessary vendor performance framework. Detailed procedures and further guidelines are under development (estimated completion to develop procedures Q2-2018).

## INTERNAL AUDIT REPORT

### EMERGENCY, SOLE AND SINGLE SOURCE PROCUREMENT AUDIT

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#### **2. *Provide Greater Oversight over Emergency, Sole and Single Source Transactions***

In 2016, the City had 111 Sole and Single Source transactions valued at \$5.1 million and 36 emergency transactions valued at \$527,067. We sampled a total of 42 emergency, sole and single source transactions.

Nearly all of the transactions sampled were compliant to policy. However, this does not necessarily mean that the most appropriate procurement method was chosen.

The justification for single source transactions included compatibility, long standing vendor relationships and immediate need. It is acknowledged that it can be advantageous for the City to engage a vendor, given their knowledge of a project or City processes. However, there is a risk that these justifications may not pass public scrutiny when other qualified vendors may be available to bid on the work. For reputational and value for money purposes, it may be more advantageous for the City to use a competitive purchasing process, whenever possible.

The rationale provided to Procurement Services for a small number of emergency purchases did not fully justify the need for an emergency transaction. In addition, the justification for several emergency purchases was due to a recently expired contract. Allowing contracts to expire, coupled with the limited number of VOR's is an indicator that there are opportunities for improvement over contract administration and procurement planning to ensure that individual procurement actions are initiated in sufficient time to meet operational needs. The need for improved contract administration has been a theme in several recent audit reports.

There were also examples of departments contacting multiple vendors directly to get pricing prior to consultation with Procurement Services. These departments contacted the vendors to assess the potential cost of the purchase in order to help make an informed procurement decision. However in such cases, the departments should first be contacting Procurement Services to determine the most appropriate procurement method.

On a quarterly basis, Procurement Services prepares a report to Council that provides details of procurement activity for the quarter and year-to-date. Although the report provides details regarding the transactions processed through Procurement Services, opportunities exist to provide insight regarding other procurement channels including LVP's and P-Card's to enhance understanding of the City's procurement activities and possible areas for improvement or optimization.

Further, the Procurement Activity Report does not distinguish between sole sourced and single sourced transactions and does not report on any reservations, rejections or non-compliance to sole, single or emergency source procurement.

Monitoring and reporting are two key activities in a controlled environment. They help ensure that inconsistencies or irregularities in the procurement process are identified quickly and resolved to support a fair and open procurement process. The success of any procurement management program is largely dependent upon the ability to access,

## INTERNAL AUDIT REPORT

### EMERGENCY, SOLE AND SINGLE SOURCE PROCUREMENT AUDIT

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organize, and analyze spend data. Management reporting should include complete and reliable data for informed decision-making.

#### **Recommendation**

We recommend that management:

- Provide greater oversight and scrutiny over non-competitive purchases to ensure appropriate procurement methods are used.
- Investigate the feasibility of capturing sole and single source transactions separately, so that thorough data analysis can be performed for monitoring and reporting purposes.
- Enhance corporate wide contract administration processes.
- Expand reporting of spend data with the purpose of highlighting procurement performance, trends, opportunities and non-compliance issues in order to strengthen overall procurement oversight.

#### **Management Action Plan**

Management agrees with the recommendations, as the audit recommendations are consistent with the recommendations identified during the procurement modernization current assessment review.

Section 4 of the new Corporate Procurement Policy PS003 provides greater clarity and stronger criteria for client departments to determine if a purchase qualifies as a single source, sole source or emergency purchase. Procurement Services will continue to work with departments in the development of Procurement Plans, with a more strategic focus, in order to determine the most appropriate procurement methodology. This process started on April 1, 2017.

Sole source, single source and emergency purchases are now being captured separately and shared with the departments.

Procurement Modernization has identified contract administration as an area requiring improvement. Departments will be engaged in a corporate wide review of the contract administration processes. This will help ensure that contracts are appropriately monitored and there is compliance with the agreed contract provisions. This will be done following the development of the detailed procurement procedures (estimated completion Q4-2018).

Procurement Services will continue providing guidance to the client departments with respect to appropriate procurement processes and to support informed decision making. Spend data is being captured through multiple sources. This data is used to develop monthly procurement reports in order to analyze and monitor spend patterns. To strength

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oversight over procurement activities, new analytical reports are being developed and will be shared with staff (estimated completion Q4-2017).

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#### **3. Corporate Purchasing Policy and Procedures Should Address Cumulative Non-Competitive Purchases**

The Purchasing Policy does not provide for cumulative non-competitive purchases in which the actual payments made to a vendor cause it to exceed approval thresholds. The use of numerous repeat vendors was observed through our spend analysis of non-competitive purchases.

To get a more extensive view of the City's non-competitive spend, the audit also included an analysis of LVP data. LVP's were established to facilitate the ordering and processing of routine, low cost supplies and by their nature, are a form of non-competitive procurement. Some of the vendors that were sampled had a significant number of LVP transaction as well as sole and single source transactions. In some cases vendors had cumulative non-competitive purchases that exceeded \$100,000.

Further, our review of LVP transactions revealed cases where multiple LVP's were generated in the same time period that collectively exceeded the LVP threshold of \$3,000. A review of the LVP data reveals cases where both a single department had multiple LVP purchases with a particular vendor and multiple departments had LVP purchases with the same vendor exceeding \$3,000.

LVP's are processed on manual forms making them prone to error and challenging to gather reliable City wide procurement data. The coordination for such purchases is left with the individual City departments making the purchases. This makes it difficult for the City to ensure that all vendors are fully qualified, appropriately licensed and insured. It also makes it very challenging to analyze spend across the entire City, categorize the supply base, develop commodity strategies and prioritizing areas of focus.

If authorization thresholds are not carefully monitored, there is the increased risk of inappropriate procurement activity and not fully leveraging the City's purchasing power.

#### **Recommendation**

We recommend that:

- Guidelines be established for cumulative non-competitive purchases in which the actual cost exceeds established thresholds. This should be linked to a Strategic Sourcing strategy and the annual procurement planning process to leverage targeted spend across the City.
- Highly manual processes such as LVP's should be replaced with more efficient procurement channels, where data can be monitored and procurement optimized.

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#### **Management Action Plan**

Management agrees with the recommendations, as the audit recommendations are consistent with the recommendations identified during the procurement modernization current assessment review.

Procurement Services is expanding and enhancing the reports it provides to management in order to influence and strategically partner with departments, maximize total value and drive consistency and procurement efficiency. Reports on procurement activities, including single sole source purchases, emergency purchases, P-Card and Low Dollar Module (LDM) purchases are being created. These reports will be shared with client departments and senior management to review spend patterns and determine appropriate procurement methods to leverage corporate wide cumulative spend. Guidelines will be developed to ensure procurement practices are in compliance with policy, reinforce transparency, accountability and value for money (estimated completion Q4-2017).

As of April 1, 2017, LVP's were replaced with the new JD Edwards LDM Purchase Order system. LDM purchase orders provide flexibility in use and enhance visibility and analytic capability for low dollar transactions. LDM purchase order training sessions have been conducted and continue to be available for City staff.

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#### **4. Charges to the Sundry Expense Account Should be Monitored More Closely**

The purpose of a Sundry Expense account is to allocate costs that do not fit into another specific account category. However, the convenience of moving costs into a sundry category often turns it into a repository for various expenses. This increases the risk for loss or misappropriation, as inappropriate expenses may be masked by improper coding.

Over \$209,000 was allocated to the Sundry Account in 2016. Internal Audit's review of the charges to the Sundry Expense account found that nearly all of these items should have been allocated to other expense accounts, such as supplies and materials, printing, department meals and protective uniforms/clothing.

Issues regarding the use of Sundry Expense accounts were also identified in the Employee Business Expenses Audit, presented to FA&A in May 2014.

#### **Recommendation**

We recommend that:

- Management investigate the feasibility of eliminating/deactivating Sundry Expense accounts.

In the interim, we recommend that:

- Financial Planning & Development staff analyze charges to the Sundry Expense account and where applicable, reallocate the charges to the appropriate expense code.
- Financial Planning & Development staff work with Departments to establish new expense codes for purchases that do not currently fit into existing expense categories.

#### **Management Action Plan**

Management agrees with the recommendations.

Management will investigate the feasibility of eliminating/deactivating Sundry Expense accounts (estimated completion Q2-2018).

In the interim, on a monthly basis, Financial Planning & Development staff will analyze charges to the Sundry Expense accounts and where applicable, reallocate the charges to the appropriate expense code and work with departments to establish new expense codes for purchases that do not currently fit into existing expense categories.