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Communication
COUNCIL: <u>March 21/17</u>
FAA Rpt. No. <u>3</u> Item <u>1</u>

DATE: March 16, 2017

TO: MAYOR AND MEMBERS OF COUNCIL

FROM: LAURA MIRABELLA-SIDDALL, CHIEF FINANCIAL OFFICER AND CITY TREASURER
JENNIFER ROSE, DIRECTOR, ENVIRONMENTAL SERVICES

RE: COUNCIL MEETING – MARCH 21, 2017
SERVICE EXCELLENCE STRATEGIC INITIATIVE: PROCUREMENT MODERNIZATION –
UPDATE

Recommendation

The Chief Financial Officer and City Treasurer and the Director of Environmental Services recommend:

1. That this communication be received.

Purpose

The purpose of this communication is to provide supplemental information for the Finance, Administration & Audit Committee Report 3 Item 1 on March 6, 2017 as requested by members of the Committee.

The Supplemental information is attached at Appendix 1.

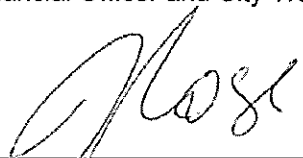
Attachment

1. Procurement Policy Supplemental Information

Respectfully submitted,



Laura Mirabella-Siddall
Chief Financial Officer and City Treasurer



Jennifer Rose
Director, Environmental Services

FINANCE, ADMINISTRATION AND AUDIT COMMITTEE – MARCH 6, 2017
SERVICE EXCELLENCE STRATEGIC INITIATIVE: PROCUREMENT MODERNIZATION – UPDATE
SUPPLEMENTARY REPORT

1 Leading Practices

A literature review was conducted to identify “leading procurement practices” noted in the proposed policy’s Mission Statement. The research referenced information obtained through the following organizations and documents:

- National Institute of Government Purchasing

The NIGP is an international association of public procurement practitioners with over 3,000 member agencies across the United States, Canada and countries outside of North America. It has an extensive library of documents covering global best practices providing definitions, context, and guidance on relevant public procurement topics.

- Ontario Public Buyers’ Association

The Ontario Public Buyers Association (OPBA) is a not-for-profit professional association representing public procurement professionals throughout Ontario. The OPBA is committed to sharing experience and expertise of their members and has a library of documents on different aspects of public procurement and links to other organizations.

- Ontario Municipal Knowledge Network

The Ontario Municipal Knowledge Network is a web-based forum enabling municipal managers throughout Ontario to share information and learn from each other’s ideas and successes. Its goal is to promote best practices among municipalities, thereby improving taxpayer accountability and transparency and has published a document of *Leading Practices in Municipal Procurement*.

- National Association of Purchasing Cards Professionals

The NAPCP is a membership-based professional association committed to advancing Commercial Card and Payment professionals and industry practices worldwide. Serving a community of 19,000, the NAPCP is a respected voice in the industry and an impartial resource for members at all experience levels in the public and private sectors. The association sponsors research and publishes timely and relevant white papers, survey results and other documents.

- Procurement Guideline for Publicly Funded Organizations in Ontario

Published by the Ontario government, it is a summary of leading practices in the procurement of goods and services for organizations funded by the Ontario government and not designated under the Broader Public Sector Accountability Act, 2010. Although it is primarily meant for use by charities and

incorporated not-for-profit groups, the document sets out practices that can be implemented as part of any organization's procurement policies and procedures.

- A Guide to Developing Procurement By-Laws

Published by the Ministry of Municipal Affairs and Housing, the guide, which is advisory in nature, outlines the steps that can be taken by municipalities and local boards to develop by-laws/policies for procuring goods and services.

- Bellamy Report - Toronto Computer Leasing Inquiry

The Toronto Computer Leasing Inquiry was a judicial inquiry into allegations of conflict of interest, bribery and misappropriation of funds around computer leasing contracts entered into by the City of Toronto. The commissioner of the inquiry was Madam Justice Bellamy of the Ontario Superior Court of Justice. Volume 2 of Justice Bellamy's report, *Good Government*, contains 241 recommendations, grouped under brief discussions of the broad themes of ethics, governance, lobbying, and procurement.

- Procurement Modernization and Transformation Project Report – City of Vaughan (Carly Rian Group)

Carly Rian Group was retained by the City of Vaughan to conduct a corporate-wide review of procurement at the City to identify opportunities to address legacy procurement challenges and better align the organization to execute against the Council's Service Excellence Strategy. The report contained a number of recommendations grouped under "Procurement Policy and Compliance Management".

The following are some of the best practices identified through the research and incorporated into the new Procurement Policy:

Best Practice	Referenced in research resources mentioned in Section 1 above			Definition	Vaughan Policy Reference
	Govt. Guides	Industry Assn	Reports		
Guiding Principles			X	Outlining the key principles and goals that are to be followed and applied when procuring goods services and/or construction through the application of this policy.	Section 1.7 – 1.8
Ethical code of conduct for Elected Officials, Staff and Vendors	X	X	X	The procurement policy should reference a broader ethics and values policy that sets out expected behaviour of elected and appointed public officials and municipal staff and the consequences where they do not comply, (e.g., conflict of interest policy).	Section 1.1.0 – 1.1.11
Maintaining Integrity of the Process	X	X	X	A policy of "no informal contact" between municipal/local board staff or elected	Sections 1.1.9 & 3.8

				officials involved in the procurement with potential suppliers during the evaluation period	
Conflict of Interest	X	X	X	Outlining what constitutes a Conflict of Interest, proper methods of identifying and avoiding these, and outcomes in the event of hidden Conflicts.	Section 1.1.12 – 1.1.17
Separation of Duties	X		X	The policy must have the ability to insulate and protect politicians from allegations of attempting to influence procurement decisions. In discussing the role of politicians, most experts emphasize the up-front role of elected officials to: <ul style="list-style-type: none"> • Approve procurement policies. • Ensure that a professional purchasing infrastructure exists. • Pre-approve the organization's purchasing requirements as part of the overall budget process. • Approve any purchasing needs that exceed authorized budgets before any formal purchasing activity is initiated. 	Section 3
Sets out whether competitive versus non-competitive procurement processes may be used.	X	X	X	Sets out circumstances for which type of process is to be used	Section 4
Use of Vendors of Record	X	X	X	VOR is a procurement process where the municipality/local board seeks out bids or proposals from a select group of vendors with which it has already established a satisfactory business relationship.	Section 4.1.11
Sets out internal controls	X	x	X	Assigning responsibilities and establishing an approval authority schedule	Sections 5 & 6
Use of a Fairness Monitor	X	X	X	Outlines the role of a Fairness Monitor, and the rational for and situations where one could/should/must be retained.	Section 7
Vendor Performance	X	X		To minimize the risk of repeated poor performance by a vendor, a policy should be in place for documenting evidence of unsatisfactory performance (in terms of failure to meet contract specifications, terms and conditions or for health and safety violations).	Section 8

Dispute resolution between suppliers and municipality	X			A clearly established and documented complaint resolution process in place,	Section 9
Addresses the potential for unsolicited bids.	X			Clear definition of delegated authorities for staff	Section 10
Includes a section for environmental considerations	X	X		Articulates support for procurement in consideration of full life cycle of products and associated economic, environmental and social costs and benefits and support of the City's related policies and initiatives, i.e. Green Directions Vaughan.	Section 15

2 Research and methodology to source comparators

Initial research was conducted by reviewing the procurement policies/by-laws of 36 municipalities and regions from Ontario and 6 other provinces to gain an understanding of similarities and differences to be considered in developing the new procurement policy for the City of Vaughan. A matrix was developed comparing the elements comprising the procurement by-laws or policies of the comparator municipalities to help determine which should be considered for inclusion in Vaughan's new policy.

Of the initial list, 25 were selected for further research. The list included all municipalities in York Region, four Regional Municipalities, including York and 12 other municipalities with population (2011) size between 125,000 and 900,000. Each individual municipal website was searched for 2016 Gross Operating Budgets and 2016 population. If 2016 populations were not available, they were estimated by calculating the percentage growth between the last census data, 2006 and 2011. That growth rate was applied to the 2011 data to approximate 2016 population. These two pieces of data were then used to calculate approximate per capita spend (2016 GOB/Pop'n). This number was then used as an additional comparison factor.

Name	Municipal Status	Municipal Sub-type	Census Division	Population 2011
Peel	Regional municipality	-	-	1,296,814
York	Regional municipality	-	-	1,032,249
Durham	Regional municipality	-	-	608,031
Halton	Regional municipality	-	-	501,669
Oshawa	Lower-tier	City	Durham	149,607
Whitby	Lower-tier	Town	Durham	122,022
Ajax	Lower-tier	Town	Durham	109,600
Windsor	Single-tier	City	Essex	210,891
Oakville	Lower-tier	Town	Halton	182,520

Name	Municipal Status	Municipal Sub-type	Census Division	Population 2011
Burlington	Lower-tier	City	Halton	175,779
Hamilton	Single-tier	City	Hamilton	519,949
London	Single-tier	City	Middlesex	366,151
Ottawa	Single-tier	City	Ottawa	883,391
Mississauga	Lower-tier	City	Peel	713,443
Brampton	Lower-tier	City	Peel	523,911
Barrie	Single-tier	City	Simcoe	136,063
Markham	Lower-tier	City	York	301,709
Vaughan	Lower-tier	City	York	288,301
Richmond Hill	Lower-tier	Town	York	185,541
Newmarket	Lower-tier	Town	York	79,978
Aurora	Lower-tier	Town	York	53,203
Georgina	Lower-tier	Town	York	43,517
Whitchurch-Stouffville	Lower-tier	Town	York	37,628
East Gwillimbury	Lower-tier	Town	York	22,473
King	Lower-tier	Township	York	19,899

From York Region, Aurora, Georgina, Whitchurch-Stouffville, East Gwillimbury and King were disqualified as too small. Then Milton, Kitchener, Cambridge and Waterloo were added, although not geographically close to Vaughan, they were considered vibrant, growing cities like Vaughan.

In reviewing the procurement by-laws and policies of the final list of municipalities, particular attention was paid to the duties of Council, use of P-Cards for low-value purchases, delegations of authority thresholds and other control measures, and how other municipalities dealt with unsolicited proposals, environmental considerations and vendor performance.

The approach to the separation of duties, delegations of authority and other content of the proposed City of Vaughan procurement policy compares favourably with the reference municipalities, particularly those who have recently updated their by-laws such as Barrie and Richmond Hill.

3 P-Card Comparison

City	Purchasing Card Thresholds
Oakville	< \$5,000
Mississauga	< \$10,000

Barrie	< \$10,000
Ottawa	< \$15,000
Halton Region	< \$10,000
Burlington	< \$5,000 < \$25,000 (Director approval)
York Region	< \$10,000
Richmond Hill	< \$10,000
Vaughan (Proposed Policy)	< \$5,000

3.1 Program Controls, Monitoring, and Audit

The PCard program has incorporated measures to monitor compliance. All PCard program participants undergo comprehensive training and education sessions under internal audit's guidance and were advised of their responsibilities and obligations. The following controls are consistently applied to ensure compliance:

- All PCard holders are subject to a maximum allowable single transaction limit
- All PCard holders are subject to a maximum allowable accumulated monthly transaction limit based on employee role (\$10,000 to \$50,000)
- Newly issued PCards are encoded with specific Merchant Category Classification (MCC) Code exclusions, restricting those purchases not reasonably related to cardholder's business needs
- PCard transactions automatically declined, restricting purchases from merchants who have identified themselves within blocked merchant business types
- The applicant only receives a PCard once mandatory Program Overview training is completed and a PCard Holder Agreement is signed
- Monthly supervisory review for valid business transactions & approval of PCard purchases charged to their budget.
- Monthly Program Administrator review of PCard transactions & compliance reviews to PCard Policies/Procedures, including data reporting & analysis.
- A/P monitors the timely receipt of monthly PCard Activity Statements/Invoices and ensures all transactions are assigned to valid account code

- All PCard holders confirm transactions appearing on their statement, and reconcile to corresponding receipts for completeness/accuracy.

4 Control and Performance Measures

The proposed policy encompasses and is supported by the following control measures:

1. Responsibility with Accountability
 - Clear Authority with strict criteria and rules for each method of award for staff levels identified in the Policy framework
 - No procurement to be initiated or authorized without a budget approved by Council
2. Policy Guidance and Compliance Monitoring
 - Procurement Services to provide policy guidance and ensure compliance with council approved delegation of award authorities
3. Transparency and Visibility of all awards on Procurement website
 - All awards immediately posted on Procurement website to provide transparency and visibility to the vendors and public
4. Procurement Reporting to CMT and SMT
 - Regular reports outlining detailed analysis on award methods, vendors, spends and improvement opportunities
5. Procurement Activity Reporting to City Council
 - Quarterly reporting on all Procurement Activities by procurement services and ongoing updates on urgent projects by departments
6. Periodic Independent review by Internal Audit,

4.1 Key Performance Indicators

The following are example Key Performance Indicators (KPIs) that support the proposed procurement policy's goals and objectives and the guiding principle of promoting effective and efficient acquisition:

Accountability - the obligation to answer for procurement results and for the manner in which procurement responsibilities are discharged:

- Councilors' and senior management's satisfaction with clarity, timeliness, relevance, and frequency of variance reports about the procurement process
- ratio of number of contract renewals where no rationale provided to total number of contract renewals.

Fairness - applying the policies equally to all bidders:

- ratio of number of complaints about fairness to number of bid calls.

Openness and Transparency - clarity and disclosure about the process for arriving at procurement decisions:

Suppliers' satisfaction with the following:

- access to procurement opportunities
- clarity of bid documents and selection criteria
- communication and explanation of bid decisions.

Effectiveness - the extent to which the procurement process is achieving its intended results (i.e., the process delivered the goods and services required to meet the municipality's/local board's needs):

- level of supplier satisfaction with the procurement process
- number of complaints received from prospective and actual bidders
- ratio of number of annual change orders to total number of annual orders
- ratio of number of requisitions filled to number of requisitions initiated
- ratio of number of awards challenged to number of awards made
- ratio of number of suppliers canvassed per bid to number of suppliers who submitted bids (in invitational bid process for medium to large procurement)
- ratio of number of times that a bid call did not result in bid award to number of bid calls
- average time needed to move through the procurement process

Efficiency - the quality, cost and amount of goods and services procured as compared to the time, money and effort to procure them:

- ratio of number of purchase orders issued to number of procurements initiated
- percentage of reconciliations completed within 30 days.