



Report to: General Committee

Report Date: January 26, 2009

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**SUBJECT:** Procurement Audit Report  
**PREPARED BY:** Ingrid Kutter x 4858

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**RECOMMENDATION:**

- 1) That the Auditor General report titled “ Procurement Audit Report”, dated January 26, 2009, be received for information
- 2) That the Town staff actions plans, developed in response to the Auditor General recommendations, be adopted

And that Staff be authorized and directed to do all things necessary to implement the action plans detailed in the Report.

**EXECUTIVE SUMMARY:**

This report presents the results of the Procurement Process Audit completed on January 26, 2009. This Report contains recommendations, which if implemented, should improve the operation of the procurement program. This Report was discussed with Town staff, who have committed to implementing corrective actions in response to the recommendations.

Procurement is the obtaining, through contractual agreement, of the timely and correct delivery of goods and service at best value for money. A basic principle of procurement is to maximize competition among potential vendors of goods and services. Procurement is the largest expenditure of the Town after staff compensation. Over 775 purchase orders were processed in 2007 for approximately \$ 50 million.

The audit scope included:

- Purchase orders and awarded contracts requiring approval outside of the user department (generally greater than \$25,000)
- Departmental purchases less than \$5,000 processed through invoices but not purchases processed through procurement cards. Procurement cards are approximately 10% of the total departmental purchases under \$5,000 and their processing is different.

The audit excluded purchases greater than \$5,000 and less than \$24,999 that are departmentally approved because this category of purchase was subject to annual “tests of compliance” by the procurement function.

The audit focused on the procurement process from initiation, when the user department determines a need, to when the goods and services are contracted for.

The objectives of the audit were to assess:

- Compliance with the Purchasing By-law 2004-341, the Expenditure Controls Policy, and documented purchasing procedures,
- The efficiency and effectiveness of the procurement process in its use of resources to achieve Town procurement principles, and
- The efficiency and effectiveness of the design of policies and procedures to safeguard against questionable purchases (town versus non town purchases).

**Overall, compliance with Town By-laws and Policies for processes relating to large value procurement actions is satisfactory, with some process improvements being recommended, specifically in planning, spend analysis, data management and bid submission response rates. Departmental purchases need some attention to strengthen compliance with policies and ensure transparency for conflict of interest situations.**

The Purchasing By-law and the General Terms and Conditions support an open, fair and competitive procurement process to enable the Town to achieve best value for money spent. The Town has adopted strong competitive processes for Quotations. Continuous improvement of processes was evidenced, in particular implementing good practices such as segregation of duties, risk based approval thresholds, standard contract terms and conditions, online bidding, internal compliance tests, blanket purchase orders, procurement cards, consistent file documentation, templated award reports, and staff training.

Further improvements are recommended in this Report to strengthen the procurement process and increase opportunities for achieving value for money. In particular, procurement planning should be fully implemented town wide and coordinated by the Purchasing department. Planning that is integrated across departments helps to take advantage of market conditions and procurement methods that achieve cost savings.

Spend analysis, as part of the planning process, should be at the top of the Purchasing department's agenda. Understanding patterns of Town expenditures can help reduce procurement costs and improve purchasing efficiency. The vendor data in the Accounts Payable module of the Town's financial system is not well organized and maintained to support this activity. Successful analysis of Town spending information will be largely dependent on the quality of the data. Effort needs to be taken to organize the accounts payable data and develop a vendor file for procurement needs.

Based on the available data in the accounts payable system, there was no evidence of overuse of a single vendor, most vendors had on average 2-3 purchase orders issued in 2008, and those with large spend had purchase orders in place. The town has done a good job in using blanket purchase orders to streamline the procurement process. Generally, there are blanket agreements where the Town has spent large dollars on large volumes of small repetitive purchases with one vendor. Vendor agreements never tendered in the past have been subject to recent competitive processes, with the exception of the waste management contract expiring in 2011.

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Large value purchases processed through the Purchasing department were generally compliant with Town policies supporting the Town's principle of acquiring the quality and quantity of goods and services required in the most cost effective and efficient manner. Some improvement could be made in documentation in order to provide an audit trail of the decision or analysis undertaken. For purchases between \$25,000 and \$100,000 action should be taken to increase the number of written quotes / bid submissions received.

User departments sometimes completed procurement actions without the Purchasing department involvement as mandated by the Purchasing by-law. These procurement actions over \$25,000 did not demonstrate that a sufficient competitive process was taken. Staff awareness of Town policies could be improved to ensure compliance.

Low value departmental purchases, under \$5,000, were not always in compliance with policies and procedures, specifically where the approvals came after the goods or services were received, or where the purchases were processed as low value when in fact they are part of a larger purchase transaction.

Where Town staff had a relationship with a vendor doing business with the Town, there was insufficient transparency regarding the relationship and the low value purchases. There was no indication that the services or work performed in these situations was not for Town operations. Stronger procedures are being recommended to improve transparency in potential conflicts of interest and minimize occurrences.

**PURPOSE:**

To present the Auditor General Report for the Procurement Process audit.

**BACKGROUND:**

This report presents the results of the Procurement Process Audit completed on January 26, 2009. This Audit was conducted as part of the Auditor General's 2009 audit work plan approved by Council through General Committee on November 3, 2008.

**OPTIONS/ DISCUSSION:**

There are 5 key themed audit recommendations and for each of those, more detailed recommendations are included in the Full Audit Report.

**Key Themed Recommendations****1. Procurement Planning**

Town wide procurement planning should be fully implemented and coordinated by the Purchasing department. An integrated town wide Plan should be supported with timely user department plans, suitable vendor data and effective spend analysis. The Plan should be used to identify opportunities to improve purchasing outcomes. Vendor data will need to be brought current, organized and enriched in order to optimize planning activity. User departments will need to better plan their procurement needs and

communicate the nature and expected timing of their requirements to the Purchasing department. Developing service level agreements between user departments and Purchasing would set mutual expectations for the procurement process.

## **2. Staff Training**

To ensure that all Town staff involved in purchasing activities complies with the Purchasing By-law and purchasing policies, training sessions should be accelerated to ensure full participation in 2009 and be mandatory. Stronger procedures should be implemented to improve the transparency of potential conflicts of interests between staff and suppliers. In particular, the Town should provide training on the requirements of the Code of Ethics and Conduct policy, require annual sign-off on the policy, and provide a process for reporting and monitoring potential conflicts of interest.

## **3. Compliance**

Staff should ensure that all low value departmental purchases are processed in compliance with policies and procedures, specifically to ensure approvals are obtained at the time of ordering and that competitive processes are applied as required. Low value purchases made to one supplier over a period of time should be considered for a competitive process. Both staff training and suitable expenditure data for spend analysis would help to identify non-compliance and opportunities to apply a competitive purchasing process.

User departments should ensure that all procurement actions greater than \$25,000 are processed through the purchasing department as required by the Purchasing By-law. During the audit testing, six non-compliant purchases were identified and five of the six did not demonstrate that a competitive process was followed. Purchasing should continue to bring these matters to the staff's attention, in addition to managers ensuring the non-compliance is documented in employee files and not repeated.

## **4. Security**

Sealed bid submissions held with the Clerk's department awaiting bid closing should be held in a secure location that is locked overnight. Bid deposits held with the Clerk's department should be reconciled with purchasing records and expired bid deposits returned to the bidding company as required in the General Terms and Conditions.

## **5. Operational Efficiencies**

The Town should have bid documents available online for all published bids as the standard Town process and continue to use this facility for the majority of bids. A core principle of procurement for government is to attract as many sellers as possible to broaden competition. With more competition there is a better chance of getting the best value for money. One way of achieving high levels of competition is using an online bidding facility to reach a wider vendor source and increase the ease of doing business with the Town. The Town should ensure references for the winning bidder are always verified and evidence of the verification is on file to support future procurement actions. A performance evaluation form for suppliers should be completed for procurement

actions beyond a certain threshold, and that should be available to all Town commissions to facilitate future award decisions.

Town staff should consider streamlining and automating document management, approvals and data collection processes in conjunction with other improvement activities being undertaken or considered in the Town.

**FINANCIAL CONSIDERATIONS AND TEMPLATE: (external link)**

Not applicable

**HUMAN RESOURCES CONSIDERATIONS**

Not applicable

**ALIGNMENT WITH STRATEGIC PRIORITIES:**

Not applicable

**BUSINESS UNITS CONSULTED AND AFFECTED:**

Purchasing Department

Human Resources

Corporate Services Commission

Development Services Commission

Community and Fire Services Commission

**RECOMMENDED**

**BY:**

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Ingrid Kutter  
Auditor General

**ATTACHMENTS:**

Procurement Audit Report