



Report to: General Committee

Date Report Authored: March 15, 2010

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**SUBJECT:** Contract Administration – Operations Division Audit Report  
**PREPARED BY:** Ingrid Kutter x 4858

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**RECOMMENDATION:**

- 1) That the Auditor General Report titled “Contract Administration – Operations Division”, dated December 18, 2009, be received for information
  
- 2) And that the Town staff action plans, developed in response to the Auditor General recommendations, be approved

And that Staff be authorized and directed to do all things necessary to give effect to this resolution.

**EXECUTIVE SUMMARY:**

**Background**

The Operations division is responsible for the maintenance of roads, parks, and streetscapes, ensuring effective winter control, environmental protection of right-of-ways, watercourses, and the maintenance of drainage infrastructure.

The Operations division 2009 budget allocated approximately \$11 million to contracts, service agreements, and construction and maintenance materials of which almost \$6 million was spent on winter maintenance activities. A further \$8.25 million was budgeted for various road resurfacing and improvement projects. In 2009, Operations managed a total of 81 contracts worth approximately \$18.5 million in total value.

Effective contract administration is critical to ensuring that contractors satisfy all of their legal obligations and that the Town receives value for money.

**What was looked at**

The audit covered contract administration for all contracts managed in the Operations division after contract award to contract closeout. Both active contracts and expired contracts from the time period October 2008 to October 2009 were within scope. The asphalt resurfacing contracts were reviewed in addition to a sample of other contracts for a total of 12 contracts.

The objective of the audit was to assess the management framework, practices and controls that ensure:

- Contracted services are provided in accordance with terms and conditions in the contract;
- All payments made against a contract are valid with supporting documentation and comply with contract terms and prices; and
- Program intended results are achieved for the pavement management program.

## **Contract Administration**

### What was found

Based on a sample of 12 contracts the audit found that contracts were adequately managed, staff exercised due care to keep costs at a reasonable level and staff conducted oversight activities aligned with contract conditions, with some exceptions in older contracts (2008 purchases) and contract renewals / extensions.

Established departmental processes provided valuable accounting and recordkeeping support that was not always applied to all contracts. There was evidence of continuous improvement when contracts were brought under the department contract administration group. Overall contract owners need to take full responsibility for administration of the contract once awarded.

Of the 12 contracts reviewed, 2 were not well managed; one being small dollar value (\$37,000) and the other higher dollar value (\$476,000). Both contracts were not managed using established departmental administration processes. Staff did identify some of the weaknesses and implemented improvements during 2009.

### What was recommended

1. Establish contract summary sheets of key contract information and activities;
2. Require all operations contracts to use the established contract tracking and billing processes;
3. Clarify responsibilities of the contract owner, especially during contract renewals;
4. Ensure all contract documents are consistent, in particular the terms; and
5. Establish consistent and clear practices to ensure sufficiency of bonds for multi-year and extended contracts.

## **Pavement Management Program**

### What was found

The audit examined the performance of the pavement management program, with a focus on how the Town is measuring their performance and how the annual work plan and investment supports the program objectives. The audit was unable to conclude on the performance of the program in meeting its intended outcomes because performance measurements, data collection and analysis were not sufficiently mature or verifiable.

### What was recommended

1. Determine how performance indicators are to be calculated, the assumptions, what source data, and apply consistently;
2. Document pavement management program;
3. Strengthen data collection and analysis activities;
4. Select appropriate "book of record", have system documentation and change control;
5. Determine frequency of road testing;
6. Ensure auditable condition indexes; and
7. Develop criteria for visual town inspections.

**PURPOSE:**

To present the Auditor General Report for Contract Administration – Operations Division audit.

**BACKGROUND:**

This report presents the results of the Contract Administration – Operations division Audit completed on Dec 18, 2009. This Audit was conducted as part of the Auditor General’s 2009 audit work plan approved by Council on November 11, 2008.

**OPTIONS/ DISCUSSION:**

There are 12 key recommendations, 5 related to contract administration processes and 7 related to pavement management program.

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

Not applicable

**HUMAN RESOURCES CONSIDERATIONS**

Not applicable

**ALIGNMENT WITH STRATEGIC PRIORITIES:**

Not applicable

**BUSINESS UNITS CONSULTED AND AFFECTED:**

Operations Division  
Purchasing Department  
Community and Fire Services Commission  
Corporate Services Commission

**RECOMMENDED BY:** \_\_\_\_\_

Ingrid Kutter

**ATTACHMENTS:**

Contract Administration – Operations Division Audit Report