



## City of Markham Vendor Management Audit – Follow Up

March 4, 2019

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March 4, 2019

Mayor and Members of Council,

Pursuant to MNP LLP's appointment to provide Auditor General Services, I am pleased to present the Vendor Management Audit Follow-Up Report ("Follow-Up Report") of the Auditor General for the City of Markham ("City"). This Follow-Up Report provides a status update on management's remediation of the observations and recommendations made in the Vendor Management Audit issued on October 2, 2017.

As reported in the October 2, 2017 audit report, the City had adequate procedures in place over vendor management; and, the audit found efficient and effective internal controls related to vendor management activities. Noted areas of strength include vendor award and account set up approval processes; purchase order and budget controls; and, escalation of vendor issues and contract termination procedures.

The results of the audit identified two medium priority observations and three low priority observations which included opportunities for improvement with respect to requesting conflict of interest declarations from departments prior to contract award; preparing a manual of the City's vendor management policies, processes and procedures; improvements to vendor performance evaluation forms and use of the performance assessments; integration of the various software systems that are used for vendor management; and implementation of a consistent file structure for file maintenance and retention.

As part of the Auditor General's audit plan, we conducted follow-up procedures to determine the status and evaluation of the effectiveness of management's activities to remediate the five observations identified in the October 2, 2017 audit report. This Follow-Up Report also provides any additional recommendations, if necessary.

This Follow-Up Report was discussed with the City's management, who have reviewed and provided their responses within, as applicable.

This Follow-Up Report will be posted on the City's website and made available to the public after tabling to Council.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Geoff Rodrigues', with a stylized flourish at the end.

Geoff Rodrigues, CPA, CA, CIA, CRMA, ORMP

Auditor General, City of Markham

## REMEDIATION STATUS

#	Observations & Recommendations (from October 2, 2017 Audit Report)	Initial Rating	Remediation Overview and Further Auditor General Recommendations	Status
1	<p><b><u>Conflict of Interest Declaration</u></b></p> <p>Employees are required to adhere to the Code of Ethics and Conduct, dated 1998, as a condition of employment, which defines a Conflict of Interest and sets out what employees shall and shall not do in event of a conflict. Staff are responsible for identifying conflicts of interest, with the onus on each staff to complete an Employee Conflict of Interest Disclosure Form with details of the identified conflict.</p> <p>The City does not have a policy that requires City staff involved in the preparation of a procurement or in procurement approval/decision making roles to declare that a conflict of interest does not exist.</p> <p><b><u>Recommendations</u></b></p> <p>While we did not identify any conflicts of interest during the audit, the risk of unreported conflicts of interest would be reduced by obtaining a declaration from individuals involved with a procurement or in procurement approval/decision making roles that a conflict of interest does not exist.</p> <p>The declaration should become a key document to be retained as part of the procurement process to demonstrate adequate due diligence has been performed for each City procurement.</p> <p>The definition of conflict of interest, contract value materiality and span of influence (i.e. group of individuals who would be able to influence the procurement results) should be determined and included within an updated Code of Ethics and Conduct to ensure conflicts can be assessed.</p> <p><b><i>Management Timeline: Q4 2017 (October 31, 2017)</i></b></p>	M	<p>In December 2018, the City updated both the Code of Ethics and Conduct, and the Procurement Manual which includes an updated definition of "Conflict of Interest".</p> <p>The City has also developed a Conflict of Interest Declaration Form. For all procurements, regardless of the contract dollar value, the City requires all staff who are involved with a procurement or in procurement approval/decision making roles to complete and sign a Conflict of Interest Declaration Form.</p> <p><b><u>Further Auditor General Recommendations</u></b></p> <p>None.</p>	Complete
2	<p><b><u>Vendor Management Policies and Process Documentation</u></b></p> <p>The policies and processes governing vendor management activities, such as vendor award, vendor account management, project management, vendor performance measurement, and vendor termination, exist in several by-laws, policies, and stand-alone process documents.</p> <p>While City departments generally follow similar processes to manage vendors, the quality and level of documentation of these vendor management processes varies widely from department to department. For example, some</p>	M	<p>The City has developed a Vendor Management section, included in the Procurement Manual, which consolidates and standardizes guidance for the City's vendor management policies, processes and procedures, as well as detailed process maps.</p>	Complete

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<p>departments maintain detailed process flowcharts, while others have limited to no process documentation.</p> <p>In addition, several processes related to vendor management are not documented, such as processes relating to Procurement's Access Database and guidelines for the storage of documentation on the common network drive.</p> <p><b><u>Recommendations</u></b></p> <p>To ensure consistent application of vendor management activities enterprise-wide, all vendor management policies, processes and procedures should be compiled into a manual that can be used by all departments. The manual should bring together vendor management processes in a common and easy-to-access format, that outlines the City's policies, established processes and procedures, and that can be adapted to different sized vendor contracts and departments.</p> <p>While facilitating a more consistent approach to vendor management, the manual will also assist with training new staff and succession management. The manual should leverage the existing project management methodology/framework established by the City's Project Management Support Office ("PMSO"), as well as the City's existing Purchasing Manual, and include:</p> <ol style="list-style-type: none"> <li>1. Vendor award;</li> <li>2. Vendor account set-up;</li> <li>3. Vendor on-boarding;</li> <li>4. Conflict of interest;</li> <li>5. Vendor performance tracking and monitoring;</li> <li>6. Communication and escalation protocols;</li> <li>7. Contract management;</li> <li>8. Project management budget tracking, purchase orders and contingencies;</li> <li>9. Project close-out;</li> <li>10. Vendor performance measurement;</li> <li>11. Termination protocols; and</li> <li>12. Vendor account purging.</li> </ol> <p><b><i>Management Timeline: Q3 2018</i></b></p>		<p><b><u>Further Auditor General Recommendations</u></b></p> <p>None.</p>	

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3	<p><b><u>Vendor Performance Measurement</u></b></p> <p>At the completion of a vendor contract, the vendor's performance is assessed by completing and returning a vendor performance evaluation form/scorecard.</p> <p>During the audit, we found that there are four commonly used vendor scorecards, in addition to customized scorecards created by departments for specific vendors or circumstances.</p> <p>In reviewing the number of vendor performance evaluation forms/scorecards used by the City, the following observations were made:</p> <ul style="list-style-type: none"> <li>• Vendor scorecard do not provide criteria as to what a specific score means, potentially resulting in a wide variance from one assessment to another; and,</li> <li>• While the City's general practice is to review performance of vendors who are rated below 70%, it is not clear how this would be calculated on several vendor evaluation forms/scorecards.</li> </ul> <p>Further, we found that vendors are not provided with the results of their performance evaluation, nor are the results compiled for analysis and shared with City departments.</p> <p>It is the City's practice to compile all previous performance evaluations for a specific vendor which are then forwarded to the City's Project Manager for their review and analysis prior to awarding a new contract.</p> <p><b><u>Recommendations</u></b></p> <p>For consistent and reliable assessment of vendor performance, the City's approach to conducting evaluations and tracking vendor performance should be revised by implementing the following:</p> <ul style="list-style-type: none"> <li>• Standardization of vendor performance evaluation forms/scorecards ensuring a clear quantitative score is given;</li> <li>• Forms/scorecards provide specific criteria for each aspect of the vendor's performance being assessed;</li> <li>• Evaluations are retained in an accessible database (i.e. Vendor Performance Database) to perform analytics (i.e. to track trends) and to share vendor performance scores within the City;</li> <li>• Develop a vendor performance policy that includes communication with vendors regarding the performance process, review of scores</li> </ul>	L	<p>The City has documented a standardized approach, including criteria, weighting score scale, and an evaluation form, for vendor performance measurement contained within the Vendor Management section of the Procurement Manual.</p> <p>The City has included the use of past vendor performance scores during the reference check stage of the procurement process, whenever past vendors are involved, within their updated procurement process.</p> <p>The City will also be leveraging upgrades to the customer relationship management software, when the software is implemented in 2020, to create a vendor database that can be accessed by staff to obtain real time information on vendors and their performance evaluation scores.</p> <p><b><u>Further Auditor General Recommendations</u></b></p> <p>None.</p>	Complete

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<p>with them as well as by City and vendor management, criteria for documentation for outlier evaluations, monitoring and use of evaluation statistics, and an appeals process;</p> <ul style="list-style-type: none"> <li>• Mandatory annual evaluations for multi-year contracts and interim evaluations for large-scale projects; and,</li> <li>• Consider the threshold and develop clear criteria for disqualification, including the potential for longer periods of disqualification for repeated or profound instances of poor performance.</li> </ul> <p>The City should also consider the use of vendor performance scores within the procurement process. For example, past vendor performance scores could form part of a vendor's mark for a future procurement, providing an incentive for vendor's to continually perform well to continue working with the City.</p> <p>Maintaining a Vendor Performance Database will also allow the City to track specific vendor information, such as the various names they operate under, especially if poor performing vendors change their names often.</p> <p><b>Management Timeline: Q3 2018</b></p>			
<p><b>4 <u>Software Integration</u></b></p> <p>There are several software systems used by various departments throughout the vendor management process, such as Cayenta, Microsoft Access, Microsoft Excel, Microsoft Project, Sharepoint, Eclipse, and eSolutions.</p> <p>None of these systems are integrated to share data, resulting in manual movement of data, causing duplication of work.</p> <p><b><u>Recommendations</u></b></p> <p>Allowing for data exchange between systems facilitates more streamlined processes requiring less manual inputting of data, reducing the potential for data entry errors and duplication of work.</p> <p>The City should investigate and evaluate options to integrate functions between SharePoint, eSolutions, Cayenta, and Procurement's Access Database, where possible, to streamline Procurement's processes and facilitate easier retrieval of information, contract management, as well as stronger internal controls.</p>	L	<p>The City is pursuing opportunities to update, upgrade and automate processes. For example, the City has an IT project which is planned for 2019 to explore integration of the interfaces between the Cayenta Financial system with Eclipse, the City's project management software.</p> <p>Further enhancements will be pursued as part of Markham's Digital Strategy which is being implemented over the next two years.</p> <p><b><u>Further Auditor General Recommendations</u></b></p> <p>None.</p>	Complete

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	<p>Further, the integration of Eclipse and Cayenta could facilitate streamlined invoice verification and project budget and purchase order processes.</p> <p>The City should also consider implementing Eclipse in all departments with large contracts/projects.</p> <p>As the integration of software systems introduces different risks related to process change and security access, the City should ensure that these risks are appropriately mitigated.</p> <p><b>Management Timeline: Q3 2018</b></p>			
5	<p><b><u>File Structure and File Maintenance/Retention</u></b></p> <p>During the audit, we found inconsistencies within the structure and the maintenance of documentation for vendor contract and vendor management files.</p> <p>For example, there is variation as to the format and types of documents (i.e. formal documents vs informal emails, unsigned vs signed documents) that are retained on the Q Drive by Procurement.</p> <p>It is understood that the City is currently transitioning to a paperless office and is investigating digitizing all vendor management documents within Procurement in the eSolutions portal.</p> <p><b><u>Recommendations</u></b></p> <p>To allow for consistent file structure and to improve document retrieval, file maintenance and retention, a policy outlining vendor contract and management file structure, naming convention and mandatory document inclusion should be developed.</p> <p>Well maintained files will ensure there is a clear audit trail for each vendor's file and will facilitate the evolution to a paperless office.</p> <p>This could further be augmented with a checklist for vendor files.</p> <p><b>Management Timeline: Q4 2017</b></p>	L	<p>The City has created a standard file folder structure for individual procurement projects. In addition, a documentation checklist has been developed, outlining the documents required for each procurement/project file.</p> <p><b><u>Further Auditor General Recommendations</u></b></p> <p>None.</p>	Complete

## **RECOMMENDATION**

The Auditor General recommends that:

1. The Vendor Management Audit - Follow Up Report be received.





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