

Town of Markham Auditor General Contract Administration –Operations Audit Report

Presented on March 22, 2010

Presented To: General Committee

Presented By: Ingrid Kutter, Auditor General

Agenda

Contract Administration, Operations Division Audit Report

- Questions answered by the audit (objectives)
- What was looked at (scope)
- How the audit was done (methodology)
- What was found (conclusion)
- Next steps (key findings and recommendations)

Questions answered by the audit

- Adequacy of the management framework, practices and controls to ensure that:
 - 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.
 - Program intended results are achieved for the pavement management program focusing on the asphalt resurfacing capital project (\$5.8 million)

What was looked at

The Operations division maintains roads, parks, and streetscapes, ensures effective winter control, environmental protection of right-of-ways, watercourses, and maintains the drainage infrastructure.

Audit Scope

- Contract administration, after contract award to contract closeout, for all contracts managed in the Operations division,
- Active contracts and expired contracts from October 2008 to October 2009 (9 in total)
- Asphalt resurfacing contracts (3 in total)
- Pavement Management program outcomes

How the audit was done

- Review of policies and process workflows
- Examined files, records and documents for a sample of 12 contracts (5 expired contracts and 7 active contracts).

Verified:

- payments made against a valid contract, with supporting documentation, evidence of receipt, and invoiced amounts agreed with contract prices,
- approvals for purchases in excess of the purchase order,
- contract terms and conditions were complied with,
- contract performance measured and assessed,
- contract documents in place, current and accurate, and
- insurance and bond coverage in place.

How the audit was done

- For the pavement management program,
 - Reviewed program documentation, 3 applicable contracts, key performance indicators, pavement condition assessments, work plans, and data records,
 - Visual inspection of active work sites and road segments recently invoiced confirming work completed and site processes such as supervision, and
 - Tested payments against supporting documents such as delivery tickets.
- 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.

What was found

Pavement Management Program

- The Town has adopted a number of good practices in delivering on the pavement management program.
 - Overall strategies and goals set for the program
 - Clearing backlog of road repairs
 - Rehabilitation and preservation strategies evaluated as to life expectancy, costs, and criteria for usage
 - Moving towards preservation and less emphasis on rehabilitation
 - Implementing new strategies and techniques to proactively maintain roads and extend their life
 - Pavement assessments conducted independent of the paving contractor
 - Soil investigation, materials testing, field sampling and compaction testing done
 - Town staff present on site during all construction activities

What was found

Pavement Management Program

- 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.
- Program performance was not adequately assessed and reliably measured.
 - The reported percent of roads rated good or better was not verifiable
- A portion of the road inventory was not sufficiently assessed and rated, potentially impacting the appropriateness of the annual work plan and achievement of the program goals.
 - Only assessed for road sections installed or rehabilitated over 10 years, on a sample basis, not annually (2005 and 2008)
 - Visual town inspections lacked objective criteria

Key Recommendations

- Determine how performance indicators are to be calculated, the assumptions, what source data, and apply consistently
- Document pavement management program
- Strengthen data collection and analysis activities
- Select appropriate “book of record”, have system documentation and change control
- Determine frequency of road testing
- Ensure auditable condition indexes
- Develop criteria for visual town inspections

What was found

Contract Administration

- 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.

What was found

Contract Administration

- 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.

Contract owners need to take full responsibility for administration of the contract once awarded.

What was found

Contract Administration

- 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.

Contract Administration - Strengths

- Contracts were assigned to a specific staff member for administration responsibility;
- Payments are generally supported by contractor time reports signed off by town staff;
- Duplicate payments were not identified during the audit testing;
- Insurance and bond documents were always on file and up to date;
- Pre-construction meetings are often done as needed; and
- Some contracts had very strong inspection process.

Summary of Findings

#	Contract Administration - general findings
5.1	Processes to ensure the successful completion of contract obligations could be strengthened to improve contract outcomes.
5.2	Contract terms differed among various documents impacting contract outcomes.
5.3	Processes were not efficient or always effective to ensure that goods and services were approved prior to delivery, and that invoices were received by accounts payable with supporting documentation on a timely basis.

Summary of Findings

#	Contract Administration – contract specific
5.4	Unexpected costs were not adequately tracked and followed up for recovery (damage from 3 rd parties).
5.5	Oversight activities specified in 2 contracts, including some quality assurance testing, were not complied with.
5.6	Performance Bonds and Labour and Materials Bonds for multi-year contract extensions were not consistently obtained; for 2 contracts not clear as to coverage.
5.7	Material delivery tickets are not sufficiently validated for weight shipments.
5.8	Change order not well executed.

Key Recommendations

1. Establish contract summary sheets of key contract information and activities;
2. Require all 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.

Next Steps

- That the Auditor General report titled “Contract Administration, Operations Division - Audit Report”, dated December 18, 2009, be received for information
- And 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.