MARKHAM

Auditor General
Town of Markham

May 4, 2009

Mayor and Members of Council,

I am pleased to present the first Audit Report of the Auditor General of the Town of Markham. The Council approved Audit Plan provides for the completion of four audits in 2009 of which one has been completed, one is well underway and nearing completion, and the remaining two audits are on track for completion in 2009.

This Report presents the results of the Procurement Process Audit completed on January 26, 2009. The Report contains recommendations, which if implemented, should improve the operation of the procurement program. The Report was discussed with Town staff, who have committed to implement or have implemented corrective actions as detailed in the Report. Action plans that require Council approval or funding sources will be addressed using the Town's current operating protocols. There are no Council approved By-laws that require amendments to implement the audit recommendations.

A copy of this Report has been provided to John Livey, Chief Administrative Officer and the Town Commissioners. This Report is provided to you for information and adoption of Town staff's proposed action plans.

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. This audit assessed compliance to By-laws and policies, the efficiency and effectiveness of the procurement process in using town resources and safeguarding town assets.

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 potential conflict of interest situations.

The detailed report will be posted on the Town of Markham's web site and made available to the public after tabling at the Council meeting.

Sincerely,

Ingrid Kutter

**TOWN OF MARKHAM AUDITOR GENERAL
PROCUREMENT AUDIT REPORT**

**January 26, 2009**

**TABLE OF CONTENTS**

## 1.0     Introduction

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 on November 11, 2008.

This Report contains recommendations, which if implemented, should improve the operation of the procurement program.    This Report was discussed with line management, the Commissioners, and the Chief Administrative Officer, who have committed to implementing or have implemented corrective actions as detailed in this Report.

Town staff provided the Auditor General with unrestricted access to all activities, records, systems, and personnel necessary to conduct this audit freely and objectively. All observations, findings, and recommendations of the Auditor General are included in this Report.

The cooperation and assistance of staff was appreciated, in particular the Purchasing department staff, Accounts Payable staff and the Information Technology staff who assisted in extracting the necessary systems data.

## 2.0     Background

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.   Good competition tends to encourage good procurement.   Procurement is the largest expenditure of the Town after staff compensation.  Over 800 purchase orders were processed in 2008 for approximately $ 110 million.  If the procurement process is not done well, then Council is not fulfilling its fiscal stewardship obligations to taxpayers.

The Town has a centralized procurement program although the process involves all departments town wide.  The Town has established a Purchasing By-law and procedures respecting the Town's procurement requirements, including the entering into contracts and signing authority.

Depending on the dollar amount of the purchase, differing authority levels and competitive processes are required.   Approximate values for 2008 were:

| Purchase Category | # of purchase orders | $value |
|---|---|---|
| Purchases < $5,000 | n/a | $ 22m |
| Purchases > $5,000 and < $25,000 | 560 | $  6.5m |
| Purchases > $25,000 and <$100,000 | 180 | $  8.5m |
| Purchases > $100,000 and <$350,000 | 65 | $  9.1m |
| Purchases >$350,000 | 43 | $ 64m |
| **Total** | 848 | $  110.1m |

### 3.1     Audit Scope

The audit covered purchasing activity for Town operations including Markham Public Library for the period January 1, 2008 through September 1, 2008. Procurement for the Varley Foundation, Innovative Synergy Centre and Markham District Energy were excluded from the scope.

The audit criteria were based on the Purchasing By-law 2004-341 and the procurement process in place as at September 1, 2008 as documented in the purchasing manual dated October 2005.  The library functions under its "Management Policy on Procurement", which is modeled on the "Town of Markham Purchasing By-law and differs in the contract award authority requirements.

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 with 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.  This category of purchase was subject to annual "tests of compliance" by the centralized procurement function and was therefore excluded to better focus audit resources to areas of unknown compliance.

The audit focused on the procurement process from initiation, where the user department determines a need, to the issuance of the purchase order, when the goods and services are contracted for.  The scope did not include contract administration, receipt of goods and services, or payment of invoices.   The audit was not intended to be an audit of accounts payable, however during the audit where opportunities for improvement were noted they have been incorporated into this audit report.

### 3.2     Audit Objectives

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).

### 3.3     Audit Methodology

In order to perform the audit work the following methods were used:
- Review of relevant documentation such as policies and  process workflows
- Interviews with centralized procurement team and departmental management
- Walkthroughs of the procurement process
- Examining files, records and documents
    - Judgmental sample of 30 purchase orders including tenders, quotes, requests for pre-qualification, and sole source awards
    - Judgmental sample of 25 low dollar purchases
    - Targeted sample of 15 purchase requisitions
    - Targeted sample of 15 potential split payments
- Extracting data from information systems and subsequent analysis
    - Vendor master file data, mailing address
    - High use vendor analysis
    - Split payment transactions analysis
    - Conflict of interest analysis
    - System access and segregation of duties

### 4.0     Conclusion

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 all 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.

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.

**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.**

## 5.0      Key themed audit recommendations

There are 5 key themed audit recommendations and for each of those, more detailed recommendations are included in section 6 of this Audit Report.

### 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 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.

## 6.0     Detailed Findings, Recommendations, and Management Responses

## 6.1     Procurement Planning

### Finding 1 – Procurement Plans
**User departments are not providing detailed procurement plans to the Purchasing department.**

In 2008, the Town of Markham had limited procurement planning outside of the budget process. User departments completed their budgets but did not complete detailed procurement plans to enable the Purchasing department to schedule their workload, consider market conditions, innovative procurement methods, and town wide opportunities to leverage purchasing power. Only one user department provided a regular updated schedule of anticipated activity to the Purchasing department. Nearly half of this user department's planned projects were not initiated with the Purchasing department as planned, making the regular updates very important for maintaining efficiencies in the Town's procurement processes.

The number of procurement projects requiring Purchasing department resources increased from 216 projects in 2007 to 287 projects in 2008 and are anticipated to further increase in future years as the Town continues with its growth strategy. Coordinated town wide procurement planning will become more important in managing Town spend, not only for the Purchasing department activity but for user department purchasing activity.

### Recommendation 1
User departments should better plan their procurement needs and communicate the nature and expected timing of their requirements to the Purchasing department at the start of each year. Regular updates with revised timelines should be provided to the Purchasing department. User departments should use a standard, consistent planning document that can easily be consolidated to get a town wide view of planned procurement actions.

*Management Response*                                    *(completion date: June 2009)*
Buyer's in the Purchasing department have been in contact with user departments to provide their 2009 procurement plans. A standard template has been developed and circulated to the departments for completion. The template includes a list of capital projects not completed as of November 2008 and the capital projects budgeted for in 2009. User departments were requested to indicate the expected month of initiating a purchase. The procurement plan details by business units have been received at Purchasing except for Engineering (partial). The plans for Engineering will be provided after their current resource issue is addressed. The plan is being consolidated now and it is expected to be updated on a quarterly basis to reflect the actual procurement activity effective June 2009. Further, this template will be expanded in 2009 to include major operating budget items requiring procurement for the 2010 procurement plan.

**Finding 2 – Purchase Requests**
**User department requests are not always provided to the Purchasing department in a timeframe to ensure an optimal competitive process.**

During the sample testing of procurement actions, it was noted that approximately half of the quotes sampled for purchases under $100,000 had less than 3 supplier responses, although at least 3 or more had picked up the bid documents.   Potential bidders that pick up a bid documents and do not bid are asked to comment on why they did not bid. Reasons included too busy, schedule already set, and no capacity to take on the work. Procurement planning provides an opportunity to start procurement actions in a timeframe to achieve optimal results. A high number of user department requests were received by the Purchasing department in the summer months.  Procurement requests earlier in the year may bring about more supplier responses at better prices since suppliers / contractors are doing their own planning at this time, as opposed to waiting for the summer months.

**Recommendation 2**
Town wide procurement planning should be fully implemented and coordinated by the Purchasing department early in the year.  Opportunities to process user requests earlier in the year aligned with vendor planning timelines should be identified and pursued where practical.

*Management Response*                                    *(completion date: April 2009)*
Details of user department's procurement plans have been provided to the Purchasing department. Purchasing department will be consolidating this plan in early March for review and opportunities for aligning department's requests through consolidation will be explored.

74% of the quotes for purchases under $100,000 for the period July – Dec 2008 had 3 or more responses. Through the consolidated procurement plan process and increased advertisements through online bidding process the target is to achieve 80% of quotes with a minimum of three or more responses in 2009.

**Finding 3 – Service standards**
**The Purchasing department has not established standard timelines that can be used to measure their performance and set expectations with user departments.**

In 2008 the Purchasing department conducted a client satisfaction survey with the user departments. Results from the survey and user department discussions indicated the turnaround time for procurement actions was less than satisfactory earlier in 2008; however with the Purchasing department now fully staffed improvement has been noted. During the first half of the year the average turnaround was 83 calendar days and in the second half 53 calendar days.  It is important that speedy turnaround time does not negatively impact the competitive and governance processes, yet delayed timelines can impact vendor participation and loss of market opportunities.  Achieving this balance can be supported by town wide procurement planning.

As of November 26, 2008 there was no indication of a backlog in processing procurement actions.  Based on 11 months of 2008 the volume of user requests open more than 6 months was two percent. Of the six actions open greater than 6 months, four were with the user department, one was being evaluated, and one was going to council.

**Recommendation 3**
Service level agreements should be developed between the Purchasing department and the user departments that clearly define turnaround times, roles and responsibilities, and service standards.

*Management Response*                                      *(completion date: December 2009)*
The average turnaround time of 53 days is well within the mandated pricing validity that vendors accept to in the bid documents i.e.90 days and hence does not adversely impact the price in general. Further service level timelines were agreed with some user departments in the Development Services Commission in the previous years as given below:

| Type | Time (Business Days) |
|------|----------------------|
| Quotation | 30 |
| Tenders < 350k | 45 |
| Tenders > 350k | 65 |
| RFP < 350k | 40 |
| RFP > 350k | 60 |

These timelines will now be communicated to all departments and posted on the intranet by April. These timelines will be revised to reflect proposed amendments to the Purchasing by Law when approved by Council.

The availability of these service level timelines will form the basis of a service level agreement that will include roles and responsibilities and service standards which will be rolled out after consultation with user departments during the year.

**Finding 4 – Vendor data and spend analysis**
**The current supplier information is not adequately organized and maintained to support effective spend analysis on expenditures, and to ensure vendors are authorized and legitimate. There is no standardized set up process to create new vendors to ensure data quality and adherence to accepted naming conventions.**

The current repository of the Town's supplier information is the accounts payable module of the Town's financial system. The integrity of the data is important to the procurement process so that purchase orders, requisitions, and payments are only issued to legitimate and authorized vendors.

Best practices involve an adequate segregation of duties such that one person is unable to both set up vendors in the system and process the corresponding payments thereby deterring fraudulent activity. The Town has successfully segregated these duties. However, new vendors are created when an approved purchase order or an approved invoice is submitted for payment without any verification of the supplier information. At times Accounts Payable will instruct the purchasing assistant in the supplier set up negating the established segregations of duties.

There is no standard vendor set up process to ensure consistency in the data fields. There is no regular review of newly created vendors by a more senior person to verify authenticity and data quality. Without consistency in the vendor records, there is a potential for duplicate records, errors, inability to analyse data and process payments efficiently.

Spend analysis is the process of collecting, classifying and analyzing expenditure data with the purpose of reducing procurement costs, improving efficiency and monitoring compliance. For example, Town spend on individual purchases less than $5,000 totalled over $25,000 for the year for some suppliers. There may be opportunities for cost savings if a competitive process was used to obtain quotes, or blanket orders, or volume discounts. The Town has not assigned responsibility or engaged in a regular process of analysing expenditure data. The vendor data in the accounts payable module of the Town's financial system is not well organized and maintained to support this activity.

The accounts payable system includes as suppliers a mixture of vendors and other payees such as residents for program registration refunds, tax and garbage rebates, and employees. A poorly maintained vendor system could expose the Town to risks of fraud, process inefficiency, lack of management information, and legal claims with respect to breach of confidential information. Indeed, there is a heavy reliance on the experienced accounts payable staff to identify anomalies.

In particular, the following deficiencies in the vendor system file were noted:
- The supplier information was last purged in 1997 resulting in over 55,000 supplier records currently in the system of which approximately 5,800 had activity in 2008.

- The format of the supplier number is inconsistent. There is no categorization of vendors to support data analysis.
- Addresses are input using three fields, however there is no consistency in the formats, and fields contain different information unrelated to addresses. The supplier name is allowed to spill over into the first address field.
- There are 900 vendors, of which 156 had payment activity in 2008, which do not have addresses in the payment system. These vendors have been coded to have the cheques returned to the requestor for hand delivery to the vendor. In most cases there is a strong rationale for this, however some are organizations and some have repeat payments. There is no regular review of these to ensure their legitimacy.
- There are 323 vendors with activity in 2008 that have post office boxes for addresses. Although it is quite common for legitimate vendors to have post office boxes for their address, it is also one method for fraudulent activity, as it makes the payment collection more difficult to trace. There is no review to verify post office box addresses are legitimate.

**Recommendation 4**
a) There **should be a vendor master file** available to the Purchasing department that includes Town vendors and potential vendors for future procurement sourcing.
b) **Accountability and capabilities for spend analysis should be established** to develop regular, repeatable analysis of spending patterns to reduce procurement costs.
c) The **accounts payable data should be cleansed** to incorporate the identification of inactive vendors for purge, flagging duplicate vendors for removal, implementing consistent vendor name and address conventions, and commoditizing the vendor base. Care must be taken to ensure data and payment history is not lost but can be retrieved as necessary for legislative requirements.
d) There should be a **standardized set up process for new vendors** including accepted naming conventions and consistency in the use of data fields for vendor records. Newly created vendors should be verified by a person independent of the set up process and sufficiently senior to assess and question the validity of the new vendor. **Approval for multiple vendor records** should be obtained

*Management Response*                                        *(completion date: April 2009)*
a) The town has transitioned in late 2008 to making available all the bid documents online through an electronic tendering network – Biddingo. This has resulted in increased participation by vendors to the Town's bids and enabled staff access to the network's vendor data base. Purchasing staff have also developed a data base in Jan 2009 that includes data relating to vendors that have participated to the Town's request for quotes in the last three years. The combination of data from Biddingo and in house data will enable Purchasing staff access to a larger data base of vendors for future sourcing. The internal data base will be maintained on a go forward basis.

b) An interim process has been implemented in the Accounts Payable module of the financial system since Jan 2009 that will increase the capabilities for spend analysis including availability of qualitative data for analysing spending patterns. The Finance

department is reviewing options for an accountability framework for spend analysis through a potential deployment in 2009.

c) The accounts payable data has been cleansed in February 2009 which included the following parameters for purging of data.

- Duplicate vendors with no activity prior to Jan 2002. A quarterly review and purging of all duplicate vendors process is now in place with the next purge to be done in April 2009
- All vendors with no activity since 2002. This retains all vendors with activity with a 7 year CCRA requirement in the system.
- One time vendors prior to Jan 2008. An annual review and purge of one time vendors will be done on a go forward basis.

A back up of the documents purged has been created and is available in a disk should there be a requirement in the future.

A consistent naming convention for vendor creation is in effect from Jan 2009 and the vendor data base alluded to in (a) above includes commoditizing of vendors.

d) A standardized new vendor set up process has been implemented since January 2009. The set up includes accepted naming conventions and consistency in use of data fields that is available in the financial system.

The process for set up of new vendors including multiple vendor records mandates that the Manager of Purchasing verify and sign off before a vendor is created in the system

| 6.2 | Staff |
|---|---|

**Finding 5 – Staff Training**
**Not all staff involved in the procurement process has attended a training session.**
The Purchasing By-law states it is the responsibility of all Town employees to ensure that all requirements of the By-law are complied with.  Staff training is a critical component of ensuring this.  The Town continued with their training program in 2008 for Town staff.  The session materials were well delivered and included key aspects of the Purchasing By-law and processes, however not all aspects of the purchasing process were sufficiently covered, such as the use of blanket agreements and procurement cards.

Staff participation and town wide coverage has not been adequately achieved in 2008.  As at November 13, 2008 five sessions were held with forty staff out of the approximately 225 staff with signing authority.   Of the five sessions, one was a repeat session for the same user department.  The attendance rate was on average 78%; however two of the sessions had quite low attendance rates of 47% and 67%.

**Recommendation 5**
The training effort should be accelerated in 2009 to ensure full participation of all Town staff involved in the procurement process.  Each commission should identify those staff required to attend the training and ensure that their staff are scheduled and attend.  As the Town employs new staff, their training needs should be identified.  Consideration should be given to providing a certificate of completion to attendees and making the session mandatory before they are permitted to process purchases or become a signing authority.  The training material should be expanded to cover items such as blanket purchase orders and the underlying values and principles of the Purchasing By-law including ethical aspects of procurement.

*Management Response*                                    *(completion date: June 2009)*
CAO and Commissioners (CCC) has approved a recommendation in January 2009 that requires mandatory attendance by staff involved in purchasing of goods or services to a training program conducted by Purchasing staff.  Each Commission will be requested to identify staff required to attend this training in April 2009.
A list of staff completing the training program will be maintained by Human Resources (HR) in the Learning Management System and Commissioner's will be updated on a regular basis on the attendance status of staff to this program by HR. New staff involved in the procurement process will be identified by HR for training. The training process will be ongoing including in-Person and the development of a Webinar.  There will be a compliance test at the end of the session and the attendees will be required to take a test to prove he or she has been trained. A passing grade will be required to participate in the procurement process.
The existing training program material on the Purchasing by Law will be expanded to include detailed processes for purchasing including blanket purchase orders, authority to purchase, ethical aspects of procurement including conflict of interest situations and procedures for payments.

**Finding 6 – Conflict of interest**
**The audit identified a few instances where Town employees had a relationship with a supplier doing business with the Town in the last 2 years.**

The Purchasing By-law requires that the Code of Purchasing Ethics published by the National Institute of Government Purchasing Inc. and the Purchasing Management Association of Canada shall apply to all Town staff involved in the purchase and disposal of goods and services. In addition, the Town has a Code of Ethics and Conduct policy that applies to all municipal staff. Employees must inform their supervisors, in writing, of any business interests of a commercial or financial nature where such interests might be construed to provide an advantage or to be in conflict with their civic duties.

The audit identified five instances where Town employees had a relationship with a supplier doing business with the Town. In two cases the employees approved the purchase and invoice payment for the related suppliers, each transaction valued at approximately $200. In both these cases the employee had not disclosed the relationship and potential conflict of interest as required by Policy.

In the other cases, the employees were not involved in the approval process however the purchases were made for the same department that the employees worked in and the supplier relation was spousal, essentially creating a potential conflict of interest.

There was no indication that the services or work performed in these situations was not for Town operations.

**Recommendation 6**
a) Staff training on the requirements of the Code of Ethics and Conduct policy and the Code of Purchasing Ethics should be conducted for all employees.
b) Staff should be required to sign off the Policy annually indicating their compliance. The Policy provides that if an employee is in contravention of the Policy, disciplinary action shall be taken, which may include dismissal. All instances of non-compliance should be discussed with the employee and documented. The annual signoff process could be electronically managed to allow for monitoring completion of the signoffs and follow up. A standard template for disclosing conflicts of interest should be developed.
c) Disclosure of conflict of interest situations should be reviewed by Director level positions, the disclosure reports should be kept in a central location and be available to the Purchasing department for ongoing monitoring.
d) Where it is in the best interests of the Town to do business with a vendor who has a relationship with a Town employee, there should be senior level management approval and adequate segregation of duties.

*Management Response*                                      *(completion date: October 2009)*
a) As mentioned in our response to recommendation 5 above, the training program material will include the requirements of the Code of Purchasing Ethics policy.

Information related to the training on the Code of Ethics and Conduct Policy will be included as part of the training program and delivered by HR staff concurrently.

b) HR will be consulted and a process will be implemented by the 3$^{rd}$ quarter of 2009 that will enable sign off by all staff electronically indicating compliance to policies that will be reviewed an updated once every three years.  A standard disclosure form for conflict of interest situations will be developed after consultation with Legal and communicated to all (posting on the intranet) before the end of June 2009.

c) A process will be implemented that requires the disclosure forms to be duly approved by the Director which will then be sent to HR. HR shall make available the data to Purchasing for monitoring. It is expected to have this implemented before June 2009.

d) CAO's approval will be obtained prior to any purchases from vendors that have a relationship (e.g. Family as defined in the Town's HR policy) with a Town employee.

### 6.3      Compliance with Policies and Procedures

**Finding 7 – Procurement Actions Greater than $25,000**
**User departments completed procurement actions without the Purchasing department involvement as mandated by the Purchasing by-law.  The procurement actions did not demonstrate that a sufficient competitive process was taken.**

The audit testing identified six procurement actions greater than $25,000 and under $100,000 that were conducted by the user department without the Purchasing department involvement.  Five of the six actions did not demonstrate that a sufficient competitive process was taken to ensure the best value for the Town.    Failure to ensure an appropriate competitive process could subject the Town to legal exposure.

For the six non-compliant procurement actions, the following deficiencies were noted:
- Insufficient number of quotes solicited (4),
- Only one vendor considered with no approval to do so (3),
- Insufficient number of Quotes received (5),
- Approval after the order was placed, receipt of invoice (3)
- Purchase order issued after services started (1)
- No purchasing department involvement (6)

In addition, two instances were noted where a series of purchases should have gone through the Purchasing department to be processed as one purchase.    Each of the transactions were individually under $25,000, however in total they exceeded $25,000 and related to one project / activity.  A competitive process should been applied.

Procurement actions processed under the direct control of the Purchasing department were generally in compliance with the Purchasing by-law and evidenced a competitive process.  The audit testing identified only one procurement action for $66,350 that did not sufficiently demonstrate that best value was achieved.

**Recommendation 7**
Procurement actions should comply with the Purchasing By-law.  Mandatory training should be implemented. The Purchasing department identified some of the above noted non-compliance after the purchase was completed and alerted both the employees involved and their management.  This practice should continue, in addition to ensuring the non-compliance is documented in the employee file and not repeated.

*Management Response*                                    *(completion date: April 2010)*
CCC has approved a recommendation in January 2009 that requires mandatory attendance by staff involved in purchasing of goods or services to a training program conducted by Purchasing staff.    Purchasing staff will continue to bring forward non compliant purchases to the Commissioner's & CAO and will also record the non compliance in the employee's file. Consequences for repeated non compliance will be determined by HR and options will be presented to CCC during the year. The direction from CCC will be communicated to all staff before the end of the first quarter 2010.

**Finding 8 – Requests for Quotations**
**The audit testing identified that 50% of the Request for Quotations sampled (purchases between \$25,000 and \$99,999) did not have the minimum three written quotes as required in the Purchasing By-law.**

The audit testing identified that 50% of the Request for Quotations sampled (purchases between \$25,000 and \$99,999) did not have the minimum three written quotes as required in the Purchasing By-law. Without sufficient number of supplier responses there is a potential that the Town is not getting the best value for its money. In most cases the Request for Quotation was advertised on the online bidding facility and more than 3 potential vendors picked up the bid documents. The response rate for the audit sample of Requests for Tenders (purchases greater than \$100,000) was much higher with about 90% having at least three written quotes.

The bid document package includes a "no bid form" that the Town requests potential bidders to complete explaining why they did not submit a bid. There was evidence that the forms are received approximately half the time. Reasons included too busy, schedule already set, and no capacity to take on the work.

Low response rates or other anomalies in submitted bids could be indicators of bid-rigging, which circumvent the competitive process driving increased costs. Bid-rigging is essentially agreements made between bidders in response to a bid, which are not disclosed to the organization requesting the bid.

**Recommendation 8**
The Purchasing department should be more proactive to follow up on vendors picking up a bid document and vendors that were invited to bid but did not. An assessment should be done whenever two or less written quotes are received to determine if the quotes are best value or if action should be taken to obtain further assurances.

*Management Response*                                          *(completion date: April 2009)*
Purchasing staff currently contact those vendors picking up the document but did not bid to ascertain the reason for not bidding. The buyers inform the Manager of Purchasing of these instances and a decision is made to go ahead with the buy after due diligence and determining that the quotes received are competitive and other evaluations are made as the circumstance may dictate. A process has been put in place since Feb 2009 that mandates the documentation of these evaluations.

**Finding 9 – Evaluation / scoring process**
**There was insufficient documentation to evidence the evaluation / scoring process for bids received in response to Requests for Proposals.**

In some circumstances acquiring quality goods or services in the most cost effective and efficient manner, one of the Town's procurement principles, may not be achieved if cost is the only evaluation criteria. Requests for Proposals may be called, instead of Tenders, when the requirements or services cannot be clearly specified, or when the requirements or services are non-standard in nature. The Purchasing By-law requires proposals to be evaluated based on pre-determined criteria. In 2005, the Town developed standard criteria for evaluating proposals for professional consulting services.

The evaluation is normally performed by the user department facilitated by the Purchasing department providing a level of independence and integrity to the evaluation.

The audit sample included 15 Requests for Proposals and 2 Quotes that used a scoring methodology to evaluate the Quotations. There was limited documentation in the files to evidence the evaluation process specifically, who participated in the scoring, which scores were done by who, that sub-scoring was determined prior to issuance of the Quotation, how supplier past history was assessed, and approval of non standard scoring.

**Recommendation 9**
The evaluation process for bids received in response to Requests for Proposals should be fully evidenced in the procurement files providing an audit trail.

*Management Response*                 *(completion date: completed)*
A summary sheet consolidating the scores of individual reviewers is kept both on file and stored electronically. Further a process has been put in place since Feb 2009 that will evidence who participated in the scoring, which scores were done by who, that sub-scoring was determined prior to issuance of the RFP, how supplier past history was assessed and approval for non standard scoring in addition to the summary sheet, before the Manager signs off the purchase order.

**Finding 10 – Compliance Tests**
**Purchasing department compliance tests identified instances of non-compliance with the Purchasing by-law (for purchases between $5,000 and $24,999).**

Starting in 2008 the centralized procurement function conducted annual "tests of compliance" for purchases that can be departmentally approved (greater than $5,000 and less than $24,999). The tests focused on compliance with the purchasing by-law specifically for the competitive process (quote requirement), approvals, and documentation. Results from these internal "tests of compliance" highlighted the need to improve compliance with the purchasing by-law. The non-compliant purchase orders were mainly related to placing orders using pricing from previously awarded contracts without approval, emergency purchase orders without approval, and one or less quotes received for the purchase. The non-compliance is not considered acceptable and detracts from achieving a competitive process and ensuring best value for taxpayer's funds. Failure to ensure an appropriate competitive process may also subject the Town to legal exposure.

**Recommendation 10**
The Purchasing department should communicate the results of the compliance test to the Commissioners and Chief Administrative Officer so that they can increase awareness of the requirements in their commissions. The Purchasing department should consider conducting a follow up test before the next regularly scheduled test to determine if the communications were successful.

*Management Response*                                        *(completion date: completed)*
The result of the first compliance test conducted in May 2008 was communicated to CCC. A further test of compliance was conducted in December 2008 that reflected an increased compliance level which suggested that communication by Purchasing staff with the user department during the year was effective. This result was communicated to CCC in Jan 2009. A quarterly test of compliance will be conducted from 2009 as per CCC's recommendation.

**Finding 11 – Use of the Goods and Services Order form**
**The Goods and Services Order form was improperly used for some departmental purchases such that approval for the purchase was done after receipt when invoiced instead of at the time of ordering.**

The Purchasing By-law allows for purchases less than $5,000 to be departmentally approved without a formal quote requirement. The audit test focused on purchases made without a procurement card. The process requires a Goods and Service Order form (GSO) to be completed at the time of ordering along with obtaining the proper approvals.

The audit tested a sample of 25 departmental purchases less than $5,000. Note that of the 25 sample purchases, only 16 required a GSO. Although the payments for all 25 purchases were approved and supported by an invoice or other third party evidence, the commitment to purchase was not always approved. The following deficiencies in the use of the GSO were noted:

- Some GSOs were completed after receipt of the goods or when the invoice was received. The GSO was used for approval not procuring (3 of the 16 tested, and a further 9 noted during other audit testing). All invoices are sent to Accounts Payable, but if a GSO is not on file, then the invoices are redirected back to the user department for approval, delaying the process and creating inefficiencies. Invoices are sometimes received by the User department and not Accounts Payable. In one case the GSO was combined to process 4 separate purchases after receipt of goods.
- Some purchases greater than $500 did not have a GSO; payment was based on an approved invoice  (3 of 16 tested)
- One blanket purchase order did not use the GSO form (out of 3 in the sample)
- The person receiving the goods or services and the approver of the order are often the same person or in some cases there was no evidence of receipt (9 of the 16 tested). Invoices did not always provide sufficient detail regarding the receipt date, so that the audit trail becomes unclear.
- Not all departments use the GSO form. The Library and Engineering use their own forms or an invoice stamp that provides similar details to the GSO but are not numbered.

The improper use of GSOs for low dollar purchases does not achieve the goal of ensuring town purchases are necessary and valid expenditures for Town operations. Obtaining approval after services or goods are received could impact Town spend.  Further inefficiencies are created in an already manual labour intensive process.

**Recommendation 11**
The Town has implemented a Purchasing Card (P Card) program and associated policies and procedures designed to enable the purchase of low dollar value goods and services within the levels of procurement authority delegated to departments. The P Card process is best practice, and widely accepted as an efficient, economical, and operationally feasible alternative to processing low dollar value purchases.

Town staff should be encouraged to use the P Card whenever the purchase complies with the P Card program rather than using the GSO process. Although the P Card process and internal controls were not reviewed as part of this audit, the policy and procedures appear to be soundly designed if executed as directed.

Ideally, an automated accounts payable solution that removes the manual paper intensive processing by automating the purchase to pay process would resolve the current processing inefficiencies. In the meantime, Town staff should be reminded of the proper procedures and the need for compliance. User departments should ensure all instances of non-compliance are discussed with the employee, documented and repeat occurrences should have consequences.

*Management Response*
The Town's P Card program is currently maintained by Amex. During late 2007 a survey was conducted by staff with P Card holders to identify opportunities for enhancing the usage of the P Cards. The survey identified two key areas for improving the usage of the P Card i.e. re-evaluating the restrictions placed on types of purchases and increased acceptability of the card at establishments. CCC approved the removal of some of the restrictions on the card and Amex has been effectively marketing their program to continue adding establishments that accept the card. The cumulative effect of these changes has resulted in a 16% increase in 2008 of the value of charges compared to the previous year. Staff will continue to monitor the P Card program in 2009 and pursue options to increase usage through changes in policies and processes

A business case is being developed for the 2010 Budget submission to implement an automated Accounts Payable process that will enable imaging and online approval of invoices, storage and recording of transactions and payment processing.

**Finding 12 – Split Purchases**
**Departmental purchases are sometimes processed improperly so that the purchase is treated as a low dollar value purchase when in fact it should be either quoted on, or processed as part of a larger project and contract.**

The audit testing selected a sample of purchases that potentially were split into smaller transactions to avoid quoting and / or approval requirements or had the opportunity to be a good candidate for a quoting process. Although an individual transaction may be below the threshold for a quote process, the total of purchases made with one vendor in the year may be sufficiently large to warrant a competitive process.

The Purchasing By-law states that no contract or purchase shall be divided into one or more contracts or purchases to avoid the requirements of the By-law and where a series of contracts which pertain to the same subject matter with the same supplier, customer or consultant in any 12 month period combine to equal any of the monetary limits referred to in the section Contract Award authority, the series of contracts shall be deemed to be a single contract.

The audit testing reviewed 15 vendors with 36 transactions that had the potential for split transactions, and found that 6 of the vendors representing 14 transactions were properly authorized and processed.

The remaining purchases demonstrated a number of deficiencies / opportunities for improvement such as;
- Purchases were split but represented expenditures against a project contract. Purchases should have been processed using an over expenditure form.
- Purchases should be treated as one purchase and subject to quoting process
- Purchases should be subject to quoting process due to the ongoing nature of the service

**Recommendation 12**
Staff should ensure that low value purchases are properly processed to ensure the appropriate approvals are obtained, that competitive processes are applied in compliance with Town policies. Low value purchases made to one supplier over a period of time should be considered for a competitive process.

*Management Response*                    *(completion date: May 2009)*
The mandated training program for staff involved in purchasing will contain a discussion on split purchases. A process has been set up in the Accounts Payable module from Feb 2009 that will provide data on all low dollar value purchases (less than $5k). This data will be analysed on a regular basis and enable discussions with user departments on opportunities to consolidate a buy. Further a report on instances of split purchases either with a GSO or a P card will be included as part of the quarterly exception compliance test reporting to CCC. The staff making the split purchase will be informed of the policies and any repeat offence will be recorded in the employee file at HR for any corrective action.

**Finding 13 – Green Procurement Policy**
**The Town does not have a "Green procurement policy" as referenced to in the Purchasing By-law.**

The Purchasing By-law states that the Town is committed to purchase products and services that are environmentally friendly and references the Towns "Green Procurement Policy". Bid documents do include a general statement of a commitment to goods and services that are environmentally friendly; however the Town does not have a Green Procurement Policy.

**Recommendation 13**
Until there is a Green Procurement Policy the Town should remove references to it in the Purchasing By-law.

*Management Response*                              *(completion date: September 2009)*
The references to the Green Procurement Policy" in the By Law will be replaced by a statement to reflect the Town's ongoing Environmental Leadership Initiatives as outlined in the Building Markham's Future Together program that is duly approved by Council.

## 6.4     Security / Data Integrity

**Finding 14**
**Sealed bids and bid deposits not always held in a fully secured location.  Bid deposits not always returned to the Bidders after the award is finalized as stipulated in the Bid document.**

The Town has adopted strong competitive processes that include open public tendering for high value procurement actions.  The current process requires that bid submissions are delivered to the Town Clerk in sealed envelopes and held at the Clerk's department unopened until the public opening.   The Town has achieved the necessary segregation of duties over custody of the sealed bids.  Observation of the opening process confirmed that sealed bids are handled properly during the opening process achieving the necessary adequate segregation of duties.

**Sealed bids held by the Clerk's department are not always kept in a secure location, especially when received before the bid closing date.**  Sealed bids that are kept in an unsecured location in the Clerk's department create a risk of loss or misappropriation that could have a potential financial impact on the Town. Failure to ensure the security of third party information may also subject the Town to legal exposure.

As part of the bid submission, a bid bond, bid deposit and an agreement to bond may be required. The audit testing identified a number of bid bonds / deposits held in the Clerk's department for projects from 2007, some of which either had the purchase order issued or were cancelled.  On further investigation, Town staff identified further bid deposits that should have been returned to the bidders.

**Recommendation 14**
Sealed bids should be kept in a secure location that is locked overnight.

Purchasing department should reconcile bid deposits being held with the Clerk's department on a regular basis to ensure "expired" bid deposits are returned to the bidding companies and that active bid deposits are on file.    Current "expired" bid deposits should be returned to the bidding companies.

*Management Response*                                  *(completion date: completed)*
Currently, a locked drawer or office is used to keep bids until the public opening.  When a bid is awarded, Purchasing intimates Clerks of the award and requests that the bid deposits be returned to the vendor. Effective Feb 2009, in addition to the above, Purchasing staff will reconcile the outstanding bid deposits in Clerks with the outstanding bid awards on a monthly basis to ensure that expired bid deposits are returned to the vendor.  As of March 2, 2009, the bid deposits being held have been reconciled and all bid deposits held are "current".

**Finding 15 - System Access**
**System access granted to staff was excessive and was not fully removed for staff leaving the Town although compensating procedures prevented leavers from unauthorized access.**

Purchasing activity information is electronically stored on a server for the use of purchasing staff and finance business analysts in managing the procurement process. For example, documentation to support specific procurement action, such as bid documents, approvals, bid analysis, email communication representing an audit trail of the actions in addition to management tracking, supplier information, assignment of project numbers are kept on the server. Access to update or alter this information should be restricted to staff whose job responsibilities require that ability to ensure data is accurate and complete, and that the audit trail is maintained. Regular update and review of who has access is necessary to reflect staff leaving the Town or staff changing job responsibilities or new staff joining

It was noted that access was given to a few staff that did not require it for their job responsibilities, and that access rights for staff leaving the Town, as far back as 2003, are not removed for this server directory, however access to the server itself was properly removed preventing unauthorized access. Keeping access rights to underlying systems and directories for staff that no longer require that access could increase the potential for misuse of the access by others to misappropriate or damage information, could be contrary to the Town's confidentiality obligations to suppliers increasing legal exposure.

Purchasing management identified the inappropriate access rights during the audit and initiated a clean up of the access rights which has since been completed.

**Recommendation 15**
Purchasing management owns the procurement data on the server and needs to regularly review access rights to ensure they continue to be appropriate. When staff leave the Town, all their access rights should be removed from all system applications, not just the network access.

*Management Response*                                                    *(completion date: July 2009)*
A review of access rights was done in November 2008 and updated to reflect current conditions. Human Resources continue to advise Information Technology Services (ITS) department of staff leaving the employ of the Town each month. In the interim ITS will forward this list to Purchasing for identifying removal of access rights. Furthermore, ITS and HR are developing a process that would enable timely transfer of information to ITS as they relate to staff position changes to ensure access rights are adjusted as per the circumstances. It is expected to have this process implemented before July 2009.

ITS will implement the removal of access rights to all system applications for staff leaving the Town unless requested not to do so by the appropriate Director/Commissioner as the circumstances warrant.

### 6.5      Operational Effectiveness and Efficiencies

**Finding 16 – Online Bidding**
**The Town's process for making bid documents available to potential bidders does not fully leverage the functionality available from the online bidding portal.**

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.  The Town currently uses Biddingo which was created in 1993 to meet the purchasing needs of the public sector.

The Town's process for issuing a quotation or tender is evolving during 2008, gradually making use of this online portal.  For most published bids in 2008, bid documents were made available through the Town's Contact Centre or contacting the buyer directly. Since April 2008 to November 11, 2008, the Town has been steadily increasing the availability of bid documents online.  On average 30% of bids placed online had the bid documents available for suppliers to download.   Since November 14 2008, the Town has increased its placement of bid documents online to 90% (9 of 10) of the bids published by the Town on Biddingo.  The number of document takers, those picking up the bid documents, ranged from 4 to 39 during this time as compared with the range of 3 to 16 document takers in the audit sample taken from January 2008 to September 2008.  The increase in document takers increases the opportunity to get the best value.

The Town continues to offer bid documents to potential bidders through the Town's Contact Centre, a cumbersome and labour intensive process that involves many steps. The costs of printing and copying bid documents, staff time to collect fees can be avoided by making bid documents available online for download.  Pick up by suppliers occurs over a few weeks increasing the complexities as many bids may be awaiting pick up during the same time period.    It was noted from the audit sample, that pickup details were not always clearly or completely recorded and on occasion no evidence or audit trail to verify that fees were collected.

From the most recent 10 published bids posted in November 2008, it was noted that most of the Town's bid advertising continues to promote pick up at the Town, with the online download option listed last, nearly as an afterthought.

**Recommendation 16**
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. Exceptions should be agreed with the Purchasing department supported by a documented rationale and kept to a minimum.  Potential bidders / suppliers should be provided an incentive to download bids. The incentive could be in the pick up fee structure. The bid advertising should promote the online download option while still offering alternatives

for receiving the bid documents.   The Purchasing department should monitor the pick up patterns to support potential suppliers in using efficient mechanisms.

Currently most bid documents have fees of $25 and for those that involve a significant effort in preparing the bid documents, such as developing drawings or use of consultants, the fees increase to $50 or more.  Consideration should be given to increasing fees further for the more complex and for pick ups and removing fees for simple bid documents ensuring no reduction in overall revenues.

*Management Response*                                        *(completion date: completed)*
Effective Jan 2009, it is the Town's standard process to post bid documents for all published bids through the online facility (Biddingo).

Exceptions to not publishing bids online are made by Purchasing staff through discussions with user department and circumstances surrounding these instances. The availability of the procurement plan will help in minimizing these instances and a process is in place effective Feb 2009 to document the reasons for not publishing bid documents

The bid documents issued from Feb 2009 onwards promotes the online option as the preferred option with incentives ranging from no fee for the on line option going up to $250 for pick up of complex documents. A review of increasing fees further for more complex documents and pick ups at the counter will be carried out during the year and recommendations will be submitted to Council for approval before the end of 2009.

**Finding 17 – Vendor references**
**No evidence that references provided by winning bidders were reviewed and verified by Town staff.**

The standard Town process is to require bidders to provide a list of 3 references of past projects of similar size and scope from the last 5 years. The standard practice is to issue an invitation to receive bids/quotes, accept bids/quotes from anyone wishing to bid, determine the low bidder, evaluate their capability to perform, and then award. Evaluating their capability to perform is essential especially where the bidder is not well known to the Town. For the majority of procurement actions under $100,000 the current process limits this assessment of bidders' capability to references from past projects.

In the audit sample tested, references were provided however there was nothing on file to evidence that references provided by the winning bidder were followed up and verified. Proof of past performance and or qualifications is a critical element of the vendor screening process to increase the likelihood that vendors awarded contracts reliably satisfy procurement / contract demands. Conducting reference checks and verifying the information becomes important. The Town's stated practice to not limit references to those provided is a good practice however there was no documented evidence this is done in a systematic way. Discussion with staff indicated they would check other references from time to time based on their knowledge of the bidder and the market, and input from the user department.

Currently the Town does not have a formal vendor database of existing and potential suppliers that have been screened, nor does the Town conduct performance evaluations after the completion of contracts/services, so that the need to verify references becomes essential. Community Services Commission has a contractor evaluation report that is completed at the end of some contracts. This was not a practice adopted by all commissions. There is no mechanism to formally share the information amongst all commissions to facilitate future award processes.

Ongoing monitoring of supplier performance and written communication of supplier non-compliances / performance issues are essential to support the Town's exercise of a termination for breach right or a claim for damages (if required) under the Contract.

**Recommendation 17**
At the completion of a contract for goods and/or services over a certain threshold, the user should complete a Vendor Performance Evaluation form. The Community Services Commission contractor evaluation report could be adopted by all commissions. Consideration should be given to conducting ongoing evaluations at key milestones for larger or complex awards to proactively manage delivery against contract requirements. All vendor performance evaluations should be available to all user departments to support decision making for future awards. Purchasing is developing a vendor database, and should add the evaluations to allow for quick search of past vendor performance.

***Management Response***                                             *(completion date: Sept 2009)*

Checking of vendor references is an integral part of the procurement process before an award is made. As mentioned in the report, staff do not limit these checks to references provided by the bidder alone. Effective Feb 2009, it is mandated procedure within Purchasing to document the follow up and verification of references provided by the bidder. Further the practice of not limiting references to those provided will be followed in instances where the Town has not dealt with the vendor and when references are not satisfactory or conclusive.

Staff will be developing a process to implement the requirement of completing a vendor evaluation form in the second quarter of 2009 initially for contracts valued over $50k. The threshold will be reviewed periodically and adjusted based on actual activity. The performance evaluation form currently used by Operations department will be suitably modified and used as a standard for all user departments to complete. It will be mandated that Project Managers on complex and high dollar value projects (over $1M) will be requested to complete the form at key milestones to manage service delivery against contract requirements. This requirement will be implemented for all major construction contracts awarded during the year 2009 which will then be included in the vendor data base. The completed evaluation forms will be available to all user departments to support decision making for future awards

**Finding 18 – Sourcing Potential Vendors**
**The sourcing of potential vendors, when the Request for Quotation is not advertised for purchases between $25,000 and $100,000, did not always demonstrate sufficient vendor screening to ensure a competitive process is maintained.**

The Purchasing By-law allows that Quotations under $100,000 can be issued without advertising, instead approaching potential vendors directly to bid. A minimum of three written quotes are required. In these circumstances the Purchasing department selects the potential vendors with User department input. In circumstances where the Quotation was not advertised, potential vendors were usually sourced based on user recommendations with little, if any, screening process by the Purchasing department to ensure appropriateness of vendors. The audit sample included two procurement actions under $100,000 that were not advertised and both did not have sufficient Purchasing department screening and selecting of vendors.

It is important to get legitimate bids that reflect market prices and conditions. Getting sufficient credible bids from potential vendors that are capable of meeting contract requirements supports the best value for money. The number of Quotations under $100,000 not advertised declined during 2008 from 50% in the first half of the year to 20% in the last half.

**Recommendation 18**
When Quotations greater than $25,000 are not advertised, the Purchasing department should become more involved in selecting vendors for solicitation in conjunction with the User department.

*Management Response*                                    *(completion date: completed)*
Purchasing staff will become involved with immediate effect in selecting vendors when quotations greater than $25,000 are not advertised. Further the development of the vendor data base coupled with the availability of a procurement plan in 2009 will enable Purchasing staff adequate lead time to assess options before a buy is processed.

**Finding 19 – Document Management**
**There are opportunities to streamline document management and data collection processes.**

The Purchasing department processes and maintains a large amount of documentation supporting procurement actions greater than $25,000.  The information is maintained in hard copy and electronically.  The format of the storage and filing is very consistent from file to file, and easy to locate documents, both hard copy and electronically.    The exception was files for non competitive procurement did not have all the documentation, and often the information was with the user department.

There is some cost to maintaining both systems of documentation and potential for increased efficiencies to move toward one document management system, ideally electronic storage that enables tracking of documents or images.

The Purchasing department uses a database for a variety of functions. The database is a stand alone application that requires data entry regardless if the data resides in another system.

**Recommendation 19**
Town staff should consider opportunities to streamline and automate these processes, especially as the department looks to creating a vendor master file and as the Town begins to implement the Portal.

*Management Response*                                        *(completion date: Dec 2009)*
Opportunities for a document management system has been identified as part of the Information Management Study conducted in 2008. As a follow up to this study, in 2009 there is an opportunity to identify high priority business process and technology solutions that will contribute to a corporate Electronic Document Management System (EDMS) that will align with the ongoing portal implementation.

**Finding 20 – Award Reports**
**The movement of award documents through the Town for the necessary signoffs is manually intensive.**

A hard copy of the award document with an approval sheet is circulated to the various Town personal.  This process is inefficient and could result in documents getting misplaced or delayed in circulation to the next person.  As Town facilities shift to other locations, such as 8100 Warden, there is an increased potential for delay in the process.

The award reports have improved over the years to become more templated for ease of use.  However, there continues to be a need for review and editing to ensure the reports are clear and understandable for those not directly involved in the procurement action. During the audit, minor errors were noted in some award reports, such as some dates, quoting incorrect rationale for a sole source purchase, and numbers of vendors picking up bid documents.  None of the errors impacted the award decision or misrepresented the award itself.

**Recommendation 20**
The Town should consider electronic work flow document management in conjunction with electronic approval.  This would allow for documents to be forwarded electronically to the necessary staff for review or approval simultaneously and provide a tracking mechanism.   If implementing electronic signoffs, it is important to have front end security controls that can authenticate the user.

*Management Response*                                    *(completion date: Jan 2010)*
An electronic approval process for staff award reports is underway and will be implemented by the end of April 2009. The Council award reports will be included in the electronic approval process by year end 2009.It is expected that this electronic approval phase would provide staff with opportunities to identify further requirements to transition to a global electronic workflow management environment including electronic sign offs and associated security.