

Town of Markham Auditor General

Procurement Audit Report

Presented on May 4, 2009

Presented To: General Committee

Presented By: Ingrid Kutter, Auditor General

Agenda

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

Introduction

- **Purpose of Today's presentation**
 - Release the Auditor General's first Report
 - Inform General Committee of the Audit Results
 - Obtain General Committee's adoption of Town staff action plans
 - Authorize and directed Staff to do all things necessary to implement the action plans detailed in the Report
- **Background**
 - This Report presents the results of the Procurement Process Audit completed on January 26, 2009
 - This audit was conducted as part of the Auditor General's 2009 Audit Plan approved by Council on November 11, 2008

Introduction

- This report contains recommendations, which if implemented, should improve the operation of the procurement program
- Town staff have committed to implementing or have implemented corrective actions in response to the Audit Recommendations
- The Auditor General is satisfied that Town staff action plans will address the root causes of the audit findings if implemented as committed
- All observations, findings, and recommendations of the Auditor General are included in this Report

Questions answered by the Audit

- Compliance with Purchasing By-law, purchasing policies and procedures
- Efficient and effective procurement process in its use of resources to achieve Town procurement principles
- Effective design of policies and procedures to safeguard against questionable purchases

Town procurement principles

- To operate a centralized procurement program to acquire, rent or lease the quality and quantity of goods and services required in the most cost effective and efficient manner;
- To encourage open competitive bidding on the acquisition and disposal of all goods and services where practical;
- To consider total acquisition costs, including quality, service, operating, training and maintenance costs, warranty, payment terms, disposal value, disposal costs, and availability, rather than only the lowest tendered purchase price received; and
- To not solicit in-house bids in competition with outside firms
- To ensure the efficient and timely delivery of goods and services

What was looked at

- Purchase orders and awarded contracts requiring approval outside of the user department (generally greater than \$25,000) with a focus on,
 - the competitive process including quotes, bids, and tenders
 - allowable non-competitive purchases
- Departmental purchases less than \$5,000
- Excluded from the audit
 - procurement card purchases
 - Department purchases between \$5,000 and \$24,999
 - Contract administration
 - Receipt of goods and services
 - Invoice payment process

How the audit was done

- Review of documentation such as policies and process workflows
- Interviews with town staff
- Walkthroughs of the procurement process
- Examining files, records and supporting documents
 - Judgmental sample of 30 purchase orders including tenders, quotes, requests for pre-qualification, and non-competitive 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
 - High use vendor
 - Split payment transactions
 - Conflict of interest
 - System access and segregation of duties

What was found

- 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.

Next Steps - Recommendations

- Procurement Planning
- Staff
- Compliance with Policies
- Operational Efficiencies
- Security

Procurement Planning

<i>Summary of Key Recommendations</i>	<i>Town Planned Completion date</i>
Implement Town wide procurement planning	June 2009
Use an integrated town wide Plan to improve purchasing outcomes	December 2009
More proactive user department communication of the nature and timing of their requirements to Purchasing	June 2009
Develop service level agreements between user departments and Purchasing	November 2009
Vendor data to be brought current, organized and enriched to optimize planning	Completed
Establish framework, accountability for spend analysis	December 2009

Status of planned actions as reported by Town as at March 16, 2009

Initial Phase

Well underway

Completed

Staff

<i>Summary of Key Recommendations</i>	<i>Town Planned Completion date</i>
Accelerate procurement training for town staff	June 2009
Require mandatory attendance at procurement training program for town staff involved in purchasing	June 2009
Expand the existing training material	June 2009
Implement stronger procedures to improve the transparency of potential conflicts of interests between staff and suppliers	October 2009
Require annual sign-off on the Code of Ethics and Conduct policy and provide a process for reporting and monitoring potential conflicts of interest.	October 2009

Status of planned actions as reported by Town as at March 16, 2009

Initial Phase

Well underway

Completed

Compliance

<i>Summary of Key Recommendations</i>	<i>Town Planned Completion date</i>
Obtain purchase approvals at the time of ordering goods or services instead of when invoiced	Immediate
Identify low value purchases that combined could be considered for a competitive process	June 2009
User departments should ensure the required (as per the By-law) procurement actions are processed through the purchasing department. Audit testing identified 6 non-compliant purchases. Non-compliance to be followed up with the employee.	Immediate
Communicate results of internal tests of compliance and conduct follow up tests	Completed
Consequences for repeated non-compliance to be formalized and communicated to staff	April 2010

Status of planned actions as reported by Town as at March 16, 2009

Initial Phase

Well underway

Completed

Operational Efficiencies

<i>Summary of Key Recommendations</i>	<i>Town Planned Completion date</i>
Have bid documents available online for all published bids as the standard Town process	Completed
Document verification of winning bidder references	Completed
Complete performance evaluations for vendors and make them available to all commissions to facilitate future award decisions.	September 2009
Streamline and automate document management, approvals and data collection processes	January 2010

Status of planned actions as reported by Town as at March 16, 2009

Initial Phase

Well underway

Completed

Security

<i>Summary of Key Recommendations</i>	<i>Town Planned Completion date</i>
Hold sealed bid submissions in a secure location that is locked overnight.	Completed
Return expired bid deposits held with the Clerk's department to the bidding company as required in the General Terms and Conditions.	Completed
Improve the process to update system access rights for staff leavers and staff job responsibilities	July 2009

Status of planned actions as reported by Town as at March 16, 2009

Initial Phase

Well underway

Completed

Next Steps

- General Committee to adopt Town staff action plans
- Town staff to implement action plans within the timeframes agreed to
- Town staff to report the status of action plans to Auditor General quarterly
- Auditor General to report back to General Committee on the status of action plans annually