

PROCUREMENT FOLLOW-UP AUDIT

EXECUTIVE SUMMARY

The City Auditor's Office issued the Procurement Follow-up Audit Report to Administration on April 10, 2018. The report includes Supply Management's (Supply's) response to three recommendations raised by the City Auditor's Office. Supply accepted all recommendations and has committed to the implementation of action plans no later than December 31, 2018. The City Auditor's Office will track the implementation of these commitments as part of our on-going follow-up process.

RECOMMENDATIONS

1. That Audit Committee receive this report for information; and
2. That Audit Committee recommend that Council receive this report for information.

RECOMMENDATION OF THE AUDIT COMMITTEE, DATED 2018 APRIL 17:

That Council receive this Report for information.

PREVIOUS COUNCIL DIRECTION / POLICY

Bylaw 30M2004 (as amended) established the position of City Auditor and the powers, duties and functions of the position. Under the City Auditor's Office Charter, the City Auditor presents an annual risk-based audit plan to Audit Committee for approval. The City Auditor's Office 2017/2018 Annual Audit Plan was approved on November 10, 2016. The City Auditor is accountable to Council and subject to the oversight of Audit Committee under Bylaw 48M2012 (as amended).

BACKGROUND

The Procurement Follow-up audit was undertaken as part of the approved City Auditor's Office 2017/2018 Annual Audit Plan. The objective of the audit was to conduct a follow-up audit on the effectiveness of management actions and business risk mitigation in response to selected audit recommendations raised in the City Auditor's Office's AC2010-41-Procurement Phase 2 Audit-AR10-02 (Procurement Phase 2 Audit). Specifically the audit focused on management actions to address the following original recommendations:

- Establish sole sourcing criteria, and review and monitor approval and use of sole sourcing. The intent was to cover both sole and single sourcing activities.
- Monitor Purchase Orders (POs) and Change Orders (COs) to identify and follow-up on irregularities and escalate as appropriate.

To achieve the audit objective, we independently validated the operating effectiveness of controls implemented, assessed the design and operating effectiveness of alternative mitigation approaches, and evaluated and discussed with business audit contacts residual risk exposure. Where appropriate, we also raised alternative opportunities to efficiently mitigate unacceptable risks.

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INVESTIGATION: ALTERNATIVES AND ANALYSIS

In March 2017, Supply became a formal Business Unit (BU) under the Deputy City Manager's Office. Two new trade agreements (Canadian Free Trade Agreement and Comprehensive Economic and Trade Agreement), came into effect July 1, 2017 and September 21, 2017 respectively. As a result of these changes, the follow-up audit focused on assessing the effectiveness of actions implemented as well as assessing emerging risk exposure, and, where appropriate, identifying new recommendations to mitigate those risks.

The audit identified that controls were implemented to review and monitor sole and single source procurement. Controls originally implemented to monitor POs and COs have either been replaced or have not been maintained as intended. Although the risk exposure is limited, there are opportunities to enhance controls. We raise three audit recommendations to further support open, transparent and best value procurement practices through consistent delivery of single and sole source procurement, and timely identification, escalation and resolution of irregularities that could be indicators of wrongdoing.

Stakeholder Engagement, Research and Communication

This audit was conducted with Supply acting as the principal audit contact within Administration.

Strategic Alignment

Audit reports assist Council in its oversight of the City Manager's administration and accountability for stewardship over public funds and achievement on value for money in City operations.

Social, Environmental, Economic (External)

N/A

Financial Capacity

Current and Future Operating Budget

N/A

Current and Future Capital Budget

N/A

Risk Assessment

The activities of the City Auditor's Office serve to promote accountability, mitigate risk, and support an effective governance structure.

Supply has a mandate to execute, monitor and control The City's procurement by ensuring that procurement is transparent, and complies with applicable regulations and trade agreements. Supply is also responsible to protect the interests of The City by supporting BUs in achieving best value for each dollar spent. In 2017, Supply procured over \$1.2B of construction, goods

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and services, consulting and IT. The follow-up audit was included in the 2017/2018 Annual Audit Plan to further support Administration's accountability to effectively mitigate procurement risks.

REASONS FOR RECOMMENDATIONS

Bylaw 48M2012 (as amended) states: "Audit Committee receives directly from the City Auditor any individual audit report and forwards these to Council for information."

ATTACHMENT

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