



Calgary

City Auditor's Office

Acquisition of Goods and Services Under SOLE

December 6, 2021

THIS PAGE LEFT INTENTIONALLY BLANK

Table of Contents

Executive Summary	5
1.0 Background	6
2.0 Audit Objective, Scope and Approach	7
2.1 Audit Objective.....	7
2.2 Audit Scope.....	7
2.3 Audit Approach.....	7
3.0 Results	8
3.1 Overview of SOLE Procurement Processes	9
3.2 Non-IT Transactions	10
3.3 IT Transactions.....	11
4.0 Observation and Recommendation	13
4.1 Updating SOLE Procurement Process Guidelines	13

The City Auditor's Office conducted this audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Executive Summary

In response to the pandemic spread of COVID-19, The City of Calgary (The City) declared a state of local emergency (SOLE) on March 15, 2020. As the number of COVID-19 cases stabilized and active cases decreased, the SOLE was lifted on June 12, 2020. The City declared a second SOLE in response to the increasing spread of COVID-19 on November 25, 2020 that was lifted June 14, 2021 and a third SOLE on September 3, 2021, which expired on December 2, 2021. These SOLE are unprecedented as they represent the three longest SOLE in The City's history and impact all Calgarians.

During a declared SOLE period, the Calgary Emergency Management Agency (CEMA) has the authority to acquire the necessary goods and services to protect public safety, health, and welfare under the Emergency Management Act, which supersedes the standard City procurement policies and procedures. CEMA led the emergency response during the COVID-19 SOLE and worked with the Supply Management Business Unit (BU) to ensure essential City services were uninterrupted. They implemented a SOLE procurement process to expedite purchases of personal protective equipment (PPE), such as hand sanitizer, disinfectant wipes, and masks. In addition, the IT and Supply Management BU coordinated the acquisition of required IT goods and services to ensure business continuity by providing employees with equipment to work from home.

During the first two SOLE periods, The City spent \$8.4M related to COVID-19, consisting of \$6M on non-IT purchases and \$2.4M on IT purchases.

The objective of the audit was to assess the design and operating effectiveness of processes implemented to support the acquisition of goods and services during the COVID-19 SOLE to mitigate the following key financial and reputational risks:

- Overpayment for goods and services;
- Purchase of goods and services that were not required; and
- Conflict of interest.

The SOLE procurement processes implemented by Supply Management and CEMA supported the timely acquisition of SOLE goods and services and were designed and operating effectively to mitigate key risks. As expected, use of SOLE procurement processes occurred mainly during the first SOLE when high-demand PPE items were in short supply. The use of an Incident Management System (IMS) helped The City expedite and triage high volume procurements through the Emergency Operations Center. Supply Management also implemented processes to monitor goods/services required to mitigate the risk of duplicate/inefficient purchases. We reviewed transactions coded to COVID-19 activity and noted that all supplier and credit card samples were related to COVID-19 activities.

The majority of IT goods and services procurement followed standard processes and leveraged existing suppliers/contracts, which resulted in best value for money during supply shortages caused by COVID-19 and the requirements to work from home. We tested new suppliers added during SOLE for both non-IT and IT transactions and did not identify conflict of interest scenarios.

We identified an opportunity for improvement to update SOLE procurement process guidance (recommendation 1), which will ensure roles and responsibilities are clearly understood and reduce the risk of procurement delays and paying more for goods and services, especially during a future SOLE. Supply Management and CEMA have agreed to the recommendation and have committed to an action plan implementation date of December 31, 2021. The City Auditor's Office will follow-up on all commitments as part of our ongoing recommendation follow-up.

1.0 Background

A state of local emergency (SOLE) is a declaration made by municipalities during a disaster or emergency. In accordance with Alberta's Emergency Management Act, during a SOLE, municipalities may procure the necessary goods and services to protect the safety, health, or welfare of people¹. The act also directs municipalities to designate a local authority to be responsible in an emergency. For the City of Calgary (The City), the local authority is the Calgary Emergency Management Agency (CEMA)².

In response to the pandemic spread of COVID-19, The City declared a SOLE on March 15, 2020. As the number of COVID-19 cases stabilized and active cases decreased, the SOLE was lifted on June 12, 2020. The City declared a second SOLE in response to the increasing spread of COVID-19 on November 25, 2020 that was lifted June 14, 2021. On September 3, 2021, The City declared another SOLE due to the continued spread of COVID-19 and the increasing number of active cases, which The City let expire on December 2, 2021.

These SOLE events were unprecedented as they represented the longest SOLE in The City's history and impacted all Calgarians. In contrast, previous SOLE events declared in Calgary in 2005 and 2013 related to flooding, affected specific neighborhoods along the Bow and Elbow Rivers, and lasted less than a month (e.g. June 20-July 4, 2013).

CEMA led the emergency response during the COVID-19 SOLE and had the authority to acquire the necessary goods and services to protect public safety, health, and welfare. The City Auditor's Office included this audit on our 2021 Annual Plan since, although CEMA is not bound by standard City policies and procedures during a SOLE, there is an expectation purchases are managed efficiently and cost effectively, and there are appropriate processes to mitigate the risk of waste and/or wrongdoing.

Since the primary focus during a SOLE is to ensure the welfare and safety of Calgarians and essential City services are uninterrupted, CEMA worked with the Supply Management Business Unit (BU) and implemented SOLE procurement processes to expedite purchases. Requests for personal protective equipment (PPE), such as hand sanitizer, disinfectant wipes, and masks, during the first SOLE were entered in the CEMA Incident Management System (IMS) to expedite and triage high volume procurements. Use of IMS allowed Supply Management to monitor and track PPE inventory requests, especially at the beginning of the pandemic as PPE was in short supply and manufacturers were ramping up production to keep up with demand.

When the first SOLE was declared, City staff were instructed to work from home, where possible, to reduce the risk of transmission of COVID-19. The IT and Supply Management BU coordinated the acquisition of required IT goods (e.g. laptops) and services (e.g. remote licenses) allowing employees to continue delivering City services while working from home.

¹ Alberta's Emergency Management Act (September 2020, 1(1)(f)) Retrieved from The Government of Alberta website.

² Alberta's Emergency Management Act (September 2020, c. 11(c) and 11.2(1)) Retrieved from The Government of Alberta website.

2.0 Audit Objective, Scope and Approach

2.1 Audit Objective

The objective of this audit was to assess the design and operating effectiveness of processes implemented to support the acquisition of goods and services during the COVID-19 SOLE to mitigate the following key financial and reputational risks:

- Overpayment for goods and services - paid for goods not received, paid more than agreed upon price, or paid for high quality but received lower quality goods;
- Purchase of goods and services that were not required, Non-SOLE related or duplicate purchases; and
- Conflict of interest - procurement from a related party (family, friend, associate) or for personal use.

2.2 Audit Scope

The scope of the audit included transactions related to procurement of COVID-19 goods and services, including IT related items, during the SOLE periods of March 15, 2020 to June 12, 2020, and November 25, 2020 to June 14, 2021. Petty cash transactions were not included in the scope of the audit.

2.3 Audit Approach

The audit approach consisted of:

- Interviewing Supply Management, CEMA, and IT staff;
- Reviewing processes, and associated documentation and workflows utilized to support procurement of goods and services under the COVID-19 SOLE that differed from standard procurement processes;
- Selecting a sample of transactions and assessing the effectiveness of the design and operation of controls over receipts and payments for goods and services procured utilizing SOLE procurement processes;
- Selecting a risk-based sample of standard IT transactions to confirm there were no overpayments; and
- Selecting a risk-based sample of transactions to confirm they were SOLE related, and there was no indication of conflict of interest.

3.0 Results

CEMA set up an activity code (896033) that must be applied to all COVID-19 related purchases to monitor and track costs related to the emergency event as well as to have records to support potential cost recovery from other levels of government or third parties. Using the activity code, we obtained procurement data from the SOLE periods to determine total expenditures and select a sample of COVID-19 procurement transactions for testing.

The City Auditor’s Office determined payments for goods and services coded to 896033 totaled \$8.4 M broken down by the following payment methods:

- \$7.5M supplier payments;
- \$790K corporate credit card (CCC) transactions; and
- \$60K employee reimbursements through payroll mostly for computer peripherals.

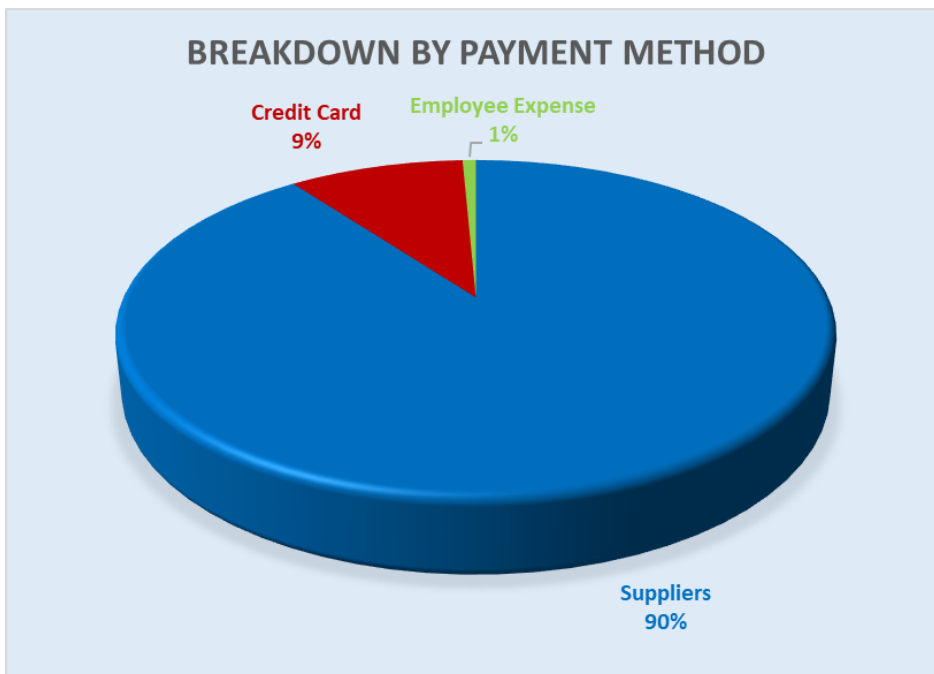


Figure 1: Breakdown by Payment Method

Using a risk-based sample selection approach, we selected a sample of 25 non-IT transactions and 5 IT transactions. A larger sample size was selected for non-IT transactions as procurement processes for those during SOLE were non-standard. IT procurement during SOLE generally followed the standard City procurement guidelines. The sample selection focused on supplier transactions; however, a small number of credit card and employee expenses were also tested.

Audit results indicated SOLE procurement processes implemented by Supply Management and CEMA supported the timely acquisition of SOLE goods and services and were designed and operating effectively to mitigate key risks. The use of IMS allowed CEMA and Supply Management to expedite and triage high volume procurement requests. Supply Management also implemented processes to monitor goods/services required to mitigate the risk of duplicate/inefficient purchases. As expected, use of SOLE procurement processes occurred mainly during the first SOLE when high-demand PPE

items were in short supply, and upon restocking of supplies, The City returned to standard procurement practice.

The previous SOLE audit conducted in 2014 which related to the 2013 flood identified improvements required over record keeping, in particular, verification of receipt of goods and tracking of procurement requests. Based on our review of SOLE processes relating to COVID-19, in this audit we noted process improvement over controls for tracking and receiving. We additionally identified enhancements to process guidance to ensure roles and responsibilities are clearly understood to further mitigate the risk of overpayment for goods and services and procurement delays. We raised one recommendation (section 4.0) intended to support procurement activities in a future SOLE.

Procurement of IT goods and services followed standard processes and leveraged existing suppliers/contracts, where applicable, which did not result in price increases attributed to supply shortages caused by COVID-19 requirements to work from home. The majority of IT purchases occurred during the first SOLE to support remote work where an average of 5,000 employees logged in from home each day.

We tested new suppliers added during SOLE for both non-IT and IT transactions and did not identify conflict of interest scenarios. We also reviewed account coding for sampled transactions and noted all supplier and CCC were correctly coded to the COVID-19 activity code and were SOLE related. We identified two coding errors related to employee expenses, which management subsequently corrected. As noted above, payment by employee expense accounted for 1% of all transactions.

3.1 Overview of SOLE Procurement Processes

The City's standard procurement process includes policies and practices to ensure procurement is open and transparent, complies with trade agreements, and demonstrates responsible public spending. Under the standard process, requisitions and purchase orders (PO) are created in The City's financial system (FSCM) and a competitive tender/bid process is required for procurement over \$75,000 for goods and services and \$200,000 for construction. Information on supplier invoices, such as quantities, price and terms, is matched to system requisitions and receipt of goods to ensure consistency (i.e. system three-way match) and mitigate the risk of paying for goods that are not received, paying more than agreed upon price, or paying for high quality but receiving lower quality goods.

The Emergency Management Act allows cities to forgo the competitive tender/bid process during a SOLE in order to expedite and procure goods related to the emergency. Supply Management and CEMA implemented SOLE procurement processes during SOLE for non-IT COVID-19 goods and services that bypassed system creation and approval of requisitions and the competitive bid process. During the SOLE, BU initiated purchase requests for emergency inventory items in CEMA's IMS and contacted CEMA for emergency non-inventory items. Supply Management staff procured the applicable goods and services and created a Direct PO in FSCM. Supply Management and CEMA created a Procurement Request Process flowchart to illustrate differences in procurement practices, which was shared with staff. Purchase requests for non-emergency goods and services followed standard procurement processes.

Using IMS allowed Supply Management to track requests relating to COVID-19 goods and assign dedicated buyers to expedite the procurement process and also triage high volume procurements. Supply Management also implemented processes to monitor goods/services required to mitigate the risk of duplicate/inefficient purchases. During the SOLE periods, certain COVID-19 items were in higher demand, in particular, PPE. Supply Management monitored the supply of these goods by utilizing an "items of interest" spreadsheet, which

was updated daily to identify stock levels and determine reorder point for the goods. Supply Management also identified common/same order requisitions in IMS and combined the orders to be more efficient and speed up delivery of the goods, which is vital in a time of declared SOLE.

During the SOLE periods, Supply Management monitored SOLE related PO on a monthly basis by tracking PO amounts and PO invoiced amounts. These KPIs were discussed internally at monthly Supply Management meetings, which were attended by the Director, Supply Management, and the Supply Leadership Team.

3.2 Non-IT Transactions

Spending on non-IT goods during the first two SOLE periods totalled \$6M, of which \$816K related to Direct PO. Our testing to assess whether processes mitigated key risks focused on Direct PO as these were higher risk since they followed a SOLE procurement process. The use of Direct PO was intended to expedite the purchase of essential goods and services required during the SOLE. We noted the use of Direct PO was higher during the first SOLE (97%) period and tapered off for the subsequent SOLE period (3%). CEMA utilized IMS to requisition goods until June 2020. After the first SOLE, the standard process was followed (i.e. requisitions in FSCM) because Supply Management was able to more easily procure high-demand PPE items that were previously in short supply.

When using the standard process there is a system 3-way match in FSCM prior to releasing payment. Under the SOLE procurement process, there is no system 3-way match. However, capturing sufficient details on requisitions in IMS supports matching through the Direct PO request and approval process, which reduces the risk of paying more than agreed upon price, or paying for higher quality goods than received. Based on our sample testing the design and operation of the SOLE procurement process effectively mitigated key risks. However, we identified enhancements to further mitigate key risks as detailed below.

We reviewed a sample of eight Direct PO transactions and confirmed, for all eight, the Direct PO was created prior to the receipt of goods, all were documented as received in FSCM, and the quantity and price per unit agreed to the Direct PO and invoice. For two of eight sampled, we could not agree details on requestor and agreed price and quantity in IMS to the Direct PO. However, we were able to agree details to emails provided by Supply Management. There is an opportunity to provide guidance to Supply Management and CEMA staff to ensure details on requestor, product description, and agreed price and quantity are captured in IMS to support matching of Direct PO details to IMS and approval of the Direct PO in FSCM and mitigate the risk of overpayment (recommendation 1).

To determine items procured under SOLE related to COVID-19 activities and were not for personal use, we assessed the business rationale (e.g. required for staff/public safety, required for work safety) for a sample of 20 transactions. The sample included:

- Eight Direct PO tested above;
- Six transactions selected based on a scan of descriptions and supplier names that potentially were not COVID-19 related;
- Two CCC transactions over \$5,000³; and

³ Risk-based sample selected from ten CCC transactions over \$5k for the SOLE periods.

- Four employee expenses over \$300⁴.

The business rationale for all were related to COVID-19 activities, with the exception of two employee expenses. We confirmed with the DeptID owners that although the employee expenses were for valid business purposes, they were coded in error to the COVID-19 activity code. We shared the coding errors with the Dept ID and Supply Management to ensure correction.

Through testing of CCC transactions, we noted two instances early in the first SOLE where the transaction was split into two separate payments in order to bypass the CCC single purchase limit. The purchases were within monthly transaction limits and were related to COVID-19 activities. Supply Management advised the transactions were split to expedite the purchase since the supplier required immediate payment. Since staff are expected to follow regular CCC guidelines prohibiting split transactions during a SOLE, we raised a recommendation (recommendation 1) to update guidance to include a review of CCC limits at the beginning of the SOLE, and increase limits, as required, to facilitate timely purchases.

We also tested new suppliers added during SOLE periods to understand the processes in place to prevent/detect conflict of interest scenarios given that a competitive process is not required. We reviewed supporting documentation for five new suppliers added during SOLE and confirmed that business rationale for selecting suppliers was documented and there was segregation of duties between requestor and Supply Management. Furthermore, in our sample testing we did not identify any indication of conflict of interest with supplier selection.

Procurement from two new suppliers sampled related to urgent business requests and followed The City's non-competitive process, including a Business Case signed off by the BU and a Recommendation Summary signed by Supply Management. We reviewed the Procurement Request Process Flowchart and noted the non-competitive process for urgent business requests was not included. To ensure staff are aware of SOLE procurement practices, we recommended (recommendation 1) that management update the flowchart to include the differences in process relating to non-competitive urgent business requests.

3.3 IT Transactions

IT purchases during SOLE followed standard procurement processes with requests initiated through either FSCM or Remedy (The City's IT inventory tracking system) instead of IMS. Although the inherent risk is lower than for non-IT transactions, which followed SOLE procurement practices, we tested IT purchases to provide assurance that key risks (e.g. didn't pay too much, buy too many, no conflict of interest or personal use) were-effectively mitigated as these transactions accounted for 29% of SOLE coded transactions. We concluded processes were designed and operating effectively to mitigate key risks, as detailed below.

Spending on non-IT goods during the SOLE periods under review totalled \$2.4M. During the SOLE periods, Supply Management was able to leverage existing suppliers/contracts for many IT related purchases. As a result, The City did not incur price increases attributed to supply shortages caused by COVID-19 as existing contract prices were honored by suppliers. The majority of IT purchases were incurred early in the first SOLE period to support remote working. The IT and Supply Management BU coordinated the acquisition of required IT goods

⁴ Risk-based sample selected from six employee expenses above \$300 for the SOLE periods.

(e.g. laptops) and services (e.g. remote licenses) that resulted in an average of 5,000 employees logging in from home each day.

Our testing sample size consisted of five IT transactions (totalling \$900K) occurring during the first two SOLE periods. IT purchases fell within two categories, laptops, hardware, and software which was requisitioned in Remedy, and enterprise software which was requisitioned in FSCM. We reviewed a sample of five IT transactions, four with existing suppliers and one with a new supplier, and concluded:

- Receipt of goods/service documented in FSCM (three)/Remedy (two) prior to payment;
- Invoice price and terms agreed to four existing supplier contracts;
- Goods/services procured related to COVID-19 activities and were not for personal use; and
- Non-competitive process followed for new supplier with associated Business Case and Recommendation Summary.

We scanned the IT SOLE transaction listing to identify anomalies and followed up for any that appeared to be personal use and confirmed they were legitimate business expenses. We also tested the reasonableness of the quantity of IT goods/services (laptops/remote licenses) procured. IT generally calculates the quantity of IT goods/services required monthly. During COVID, forecasts were updated weekly and considered the number of employees working remotely. Based on an analysis of our sample, we determined the quantity of laptops purchased was reasonable and all laptops were deployed, and the number of remote licenses was reasonable based on the number of employees working remotely.

We would like to thank staff from CEMA, Supply Management and IT for their cooperation and support during this audit.

4.0 Observation and Recommendation

4.1 Updating SOLE Procurement Process Guidelines

Supply Management should collaborate with CEMA to update SOLE procurement process guidance related to Direct PO, non-competitive procurement processes, and CCC limits. Accurate and complete SOLE procurement process guidance ensures roles and responsibilities are clearly understood and reduces the risk of procurement delays and paying more for goods and services, especially during a future SOLE.

During a SOLE the procurement process differs from standard processes. Supply Management and CEMA developed SOLE procurement processes to ensure critical goods could be secured in a timely and efficient manner. Supply Management and CEMA utilized a Procurement Request Process flowchart to illustrate the difference in procurement processes under a SOLE. The flowchart was created early during the first COVID-19 SOLE period with the objective of providing guidance to Supply Management and CEMA staff. We reviewed the flowchart and a sample of transactions and noted, although Direct PO and non-competitive procurement for urgent business requests were used during the SOLE, they were not included in the flowchart. The flowchart should be updated to include both of these processes to ensure staff are aware of processes, their respective roles, and documentation required.

SOLE related procurement requests were initiated through CEMA's IMS, which allowed Supply Management to coordinate and track the procurement of COVID-19 goods, in particular high demand items. Supply Management Buyers created Direct PO to process these transactions in The City's FSCM system. Under this process, there was no system requisition that included details of the request (e.g. quantity ordered and agreed price) or BU approval. Direct PO were approved by Supply Management staff in FSCM based on system delegations of authority.

Two of eight Direct PO's sampled did not include details on requestor and agreed price and quantity in IMS. We subsequently contacted the Buyer to obtain the additional request details, which were not readily available since the Buyer had relocated to a new position. There is an opportunity to provide guidance to Supply Management and CEMA staff to ensure details on requestor, product description, and agreed price and quantity are captured in IMS (e.g. enter directly in IMS or attach email with details) to support matching of Direct PO details to IMS and approval of the Direct PO in FSCM. Where details cannot be matched, there is a risk of overpaying for goods (e.g. more than agreed price or for higher quality items than received).

To process payments quickly during a SOLE, suppliers may request payment immediately via credit card. We noted two instances, in our sample of eight CCC transactions, where the transaction was split into two separate payments in order to bypass the single purchase limit. These transactions were within the monthly CCC transaction limit. Since staff are expected to follow regular CCC guidelines prohibiting split transactions during a SOLE, Supply Management should update guidance to include a review of CCC limits at the beginning of the SOLE, and increase limits, as required, to facilitate timely purchases. Accounts Payable is available to quickly increase credit card limits over the phone with the CCC provider, with Supply Management approval.

Recommendation #1

The Director of Supply Management work with the Chief of the Calgary Emergency Management Agency to update the SOLE procurement process guidance to include:

- Within the Procurement Request Process flowcharts:
 - The Direct PO process, including requests and approvals and IMS details; and
 - The Non-Competitive procurement process for SOLE business requests.
- A process to review/increase Corporate Credit Card limits during a SOLE.

Management Response

Agreed.

Action Plan	Responsibility
The Manager, Performance and Quality Management will work with CEMA to review, update, and communicate the current process flowcharts for Incident Management System, Direct Purchase Order, Purchase Order, Non-Competitive Procurement and Corporate Credit Card Limits during a SOLE.	<p>Lead: Supply Management, Manager, Performance and Quality Management</p> <p>Support: CEMA Representative</p> <p>Commitment Date: December 31, 2021</p>