



Calgary

City Auditor's Office

Procurement Follow-up Audit

April 10, 2018

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The City Auditor's Office completes all projects in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Executive Summary

The objective of the Procurement Follow-Up 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). The Procurement Phase 2 Audit was a broad assessment of procurement controls in place to mitigate risk and demonstrate effective stewardship of public funds, through open and transparent procurement.

We used a risk-based approach to narrow the focus of the Procurement Follow-Up audit 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.

Since the Procurement Phase 2 Audit was reported in May, 2010, there have been organizational and legislative changes. In March 2017, Supply Management (Supply) became a formal Business Unit (BU) under the Deputy City Manager's Office, and 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, this 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. As described in the Annual Audit Plan, follow-up audits are generally more limited in scope, but may identify opportunities to improve risk mitigation as a result of operational changes.

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 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.

Sole and Single Sourcing

The original recommendation was closed in 2011 as a result of the development of Administration Policy FA-036- Procurement Using a Sole or Single Source Vendor (the Policy). We recommended additional policy enhancements to include dollar thresholds for initiation of Notice of Intent (NOI)¹ and business cases for sole sourcing, and NOI requirements for single sourcing, as well as reflecting minor policy changes triggered by the new trade agreements. We also recommended new standard operating procedures to support consistent compliance and delivery practices.

Monitoring Irregularities

Supply has a responsibility to monitor procurement activities and to work with BUs to mitigate the City of Calgary's potential exposure to legal liabilities, and financial losses by addressing irregularities and wrongdoing in a timely fashion. Original recommendations were closed based on the 2012 implementation of a Red Flag process to monitor procurement irregularity

¹ Notice of Intent-A public document advising vendors of a pending non-competitive award.

indicators, including those related to sole and single sourcing, POs and COs, and match exception reports. The Red Flag process has been replaced with an informal process to identify and resolve irregularities through earlier engagement with BUs. Although this may, as originally designed, encourage collaboration with BUs, this informal process could result in inconsistencies in the identification and resolution of potential wrongdoing. We recommended a formal process to ensure that potential wrongdoing is identified, escalated, resolved and reported in a timely manner, and to also support improved training opportunities for both BU and Supply staff, through trending.

Supply agreed with all three new recommendations, and have indicated in their responses a commitment to implement action plans no later than December 31, 2018. The City Auditor's Office will follow-up on all commitments as part of our ongoing recommendation follow-up process.

1.0 Background

On March 1, 2017, Supply Management (Supply) became a separate Business Unit (BU) under the Deputy City Manager's Office. Previously Supply operated as a key function under the Finance & Supply BU. The Canadian Free Trade Agreement (CFTA) and the Comprehensive Economic and Trade Agreement (CETA) came into effect July 1, 2017, and September 21, 2017, respectively. The CFTA requires posting of all contracts within 72 days of award and a more detailed debrief to vendors who are not successful, all of which will require increased diligence in documentation to support procurement decisions. In addition, in early 2017, Supply introduced a suite of construction procurement documents including Request for Tenders, Request for Proposals and Request for Standing Offer, to enhance consistency and to clearly define obligations and liabilities for the City of Calgary (The City) and vendor community.

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 the best value for each dollar spent. In 2017, Supply procured over \$1.2B of construction, goods and services, consulting and IT. Supply handled over 2,000 procurement files covering new awards, extensions and renewals.

The Procurement Follow-up Audit is included in the approved 2017/2018 Annual Audit Plan. The follow-up audit was included in the Annual Audit Plan to further support Administration's accountability to effectively mitigate risks which can negatively impact the successful achievement of business objectives and related Council priorities.

1.1 Risk Assessment

We reviewed the following audits related to procurement over the last nine years:

- AC2009-75 Audit of Procurement - Phase 1 Report on Governance - AR09-03
- AC2010-41 Procurement Phase 2 - AR10-02
- AC2011-32 Furniture Purchase Audit
- AC2014-0878 Procurement Response Under State of Emergency
- AC2015-0557 Contract Procurement

We used a risk-based approach that included consideration of appropriate follow-up timing to narrow the focus of the audit on management actions in response to key recommendations/risks raised in AC2010-41 Procurement Phase 2-AR10-02 (Procurement Phase 2 Audit), which are identified in the Appendix, and relate to implementing controls to:

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

2.0 Audit Objectives, Scope and Approach

2.1 Audit Objective

The objective of this audit was to conduct a follow-up audit on management actions, in response to key procurement audit recommendations raised, to assess the effectiveness of business risk mitigation.

2.2 Audit Scope

The scope of the audit was limited to the recommendations and related risks identified in Appendix A. The period of review of related documentation was from of July 1, 2014 to June 30, 2017.

2.3 Audit Approach

To achieve the audit objective, we:

- Independently validated the operating effectiveness of controls implemented;
- Assessed the design and operating effectiveness of alternative mitigation approaches as applicable;
- Evaluated and discussed with business audit contacts residual risk exposure; and
- Where appropriate, raised alternative opportunities to efficiently mitigate unacceptable risks.

3.0 Results

The audit evaluated the effectiveness of Supply's controls and, where applicable, alternative mitigation approaches implemented in response to audit recommendations 3, 4 and 5 raised in the Procurement Phase 2 Audit (Appendix A).

3.1 Sole or Single Source Policy

The Procurement Phase 2 Audit examined controls related to sole sourcing criteria, and review and monitoring of approval and use of sole sourcing. The audit recommended in recommendation 3 that the Director of Finance & Supply: "Establish criteria for 'sole sourcing' contract awards and administrative control processes that ensure proper approval and monitoring on the use of 'sole sourcing'." This recommendation was closed on October 31, 2011 as a result of the development of the Policy that incorporated the conditions imposed by the New West Partnership Trade Agreement (NWPTA).

Supply developed and implemented Administration Policy FA-036- Procurement Using a Sole or Single Source Vendor (the Policy) in 2010. The Policy outlines the business rules for the procurement of goods, services or construction using a sole or single source vendor. Sole sourcing is defined as the use of one source when that source is the only available firm possessing the ability to fulfill The City's needs. Single sourcing is the practice of deliberately concentrating purchases of a particular item or service with one source over others in a competitive marketplace.

We reviewed the Policy and the design of controls that support compliance with the Policy. We noted that the current Policy was due for revision in September 2017. In addition, Supply was in the process of reviewing and updating the Policy as part of a project to review the suite of 20 Procurement Policies. Management confirmed that this project is expected to be

completed by Q2 of 2018 and is 60% complete. Subsequent to the conclusion of this audit, Supply notified us that an assessment of the new trade agreements had been completed and only minor revisions to the Policy were required.

We also tested a sample of five sole (three new and two extensions) and four single source procurement decisions to assess compliance with the Policy and the operating effectiveness of controls. For our sole and single source sample, the established process, as outlined in the Policy, was followed with respect to the following:

- BUs submitted a business justification case to Supply.
- Buyers evaluated the business case to determine if sole or single source procurement was justified and recorded details of the procurement on an Award Summary form and in File Tracker, a searchable web-based database of key procurement information.
- Buyers captured PO details and approval justification comments in The City's financial and supply chain management system (FSCM).
- The appropriate approval authority, based on delegation of authority (DOA), approved the sole and single source procurement on the Award Summary. The DOA authority levels are determined based on dollar thresholds defined by the City Manager, which are incorporated in Supply's approval process.
- Automated FSCM workflow approvals for the sole source sample were consistent with authority levels on the Award Summary.
- Performance and quality management reported sole and single source procurement to Supply's management team in the quarterly Key Performance Indicators (KPI) report.

We noted the following exceptions with respect to business cases and Notices of Intent (NOI):

- One sole source business case was not available and as a result we could not determine whether it was submitted in advance of Supply's review and approval.
- The BU approval date on one single source business case was one day after the date of Supply's Approval on the Award Summary, which indicates that the business case was not submitted in advance. However, the business case and PO were approved on the same date since Supply advised that the PO was held until the BU provided the business case. In addition, the business case was not approved by the appropriate level within the BU.
- One NOI was not completed and posted in our sample of valid sole source procurement.

Supply indicated that they are applying the NWPTA dollar thresholds to the requirement to initiate business cases and NOIs for sole sourcing. This process has developed over time and is not included in the Policy. We noted that the Policy does not define sole sourcing thresholds, which could lead to inconsistent practices.

The Policy requires that details of sole or single sourced procurements for both new awards and extensions be reported to Council based on dollar thresholds (professional services awards greater than \$100,000 and goods and general services awards greater than \$500,000). We identified one sole source file in our sample that was an extension and was not included in the quarterly report to Council. Although new awards were reported, Supply advised that they have not been reporting extensions to Council.

Overall, controls are designed and operating effectively to guide sole and single source procurement and ensure compliance with the Policy. However, testing identified exceptions with respect to the initiation of business cases and NOI and reporting requirements outlined in the Policy. Although the resulting risk exposure is limited, we recommended a review and

update of the Policy and practices to enhance controls related to the exceptions identified (Recommendation 1).

3.2 Monitoring Irregularities

The Procurement Phase 2 Audit examined controls related to monitoring of POs and COs to identify and follow-up on irregularities and escalate as appropriate. Recommendation 4 in the audit recommended that the Director of Finance & Supply: “Develop processes to systematically extract, review, and analyze CO information related to POs.” The recommendation was closed on June 30, 2014 on the basis of monitoring of impropriety indicators through the Red Flag process.

In recent years, Supply has implemented a collaborative process with BUs to manage irregularities and potential wrongdoing, which replaced the formal Red Flag process. We interviewed staff to understand the current process and noted Buyers identify irregularities and potential wrongdoing during the procurement request review and approval process. Escalation and follow up is informal with the related BUs and Corporate Security. There is no formal process regarding the identification (including criteria), reporting, escalation and resolution of irregularities and potential wrongdoing. Since informal practices may not sufficiently detect and address irregularities and wrongdoing in a timely fashion, resulting in associated financial and reputational risk, we recommended a formal process to ensure that potential wrongdoing is promptly identified, escalated, resolved and reported appropriately (Recommendation 2).

3.3 Monitoring Start of Work Indicators

The Procurement Phase 2 Audit recommended in recommendation 5 that the Director of Finance & Supply: “Review and, where necessary, strengthen processes and controls to ensure that work does not start until the contract has been issued.” The recommendation was closed on June 30, 2014 on the basis of a monthly Match Exception Report that would include instances where the PO is dated after the invoice.

Supply runs Match Exception Reports weekly to mainly address pricing or receipt discrepancies and to complete the payment to the vendor. However, the Match Exception Reports do not include instances where invoices pre-date PO creation to track and monitor whether work started prior to contract issuance. Monitoring indicators of work starting before PO approval, will help to ensure that the appropriate insurance and bonding documents are in place and mitigate financial and reputational risk.

We developed a report using data analytics software to identify instances where the invoice date pre-dated the PO date as an indicator of work starting prior to contract issuance. From 2016 to 2017, the number of such invoices declined by 54% (1,155 to 533), which is indicative of a positive trend. A risk based approach to track and monitor invoices pre-dating PO creation, using similar reporting, will help to identify irregularities and trends, and follow up required. We recommended that Supply develop reporting to track and monitor indicators of work starting prior to contract issuance, such as invoices pre-dating POs. (Recommendation 3).

We would like to thank staff from Supply for their assistance and support throughout this audit.

4.0 Observations and Recommendations

4.1 Sole or Single Sourcing Policy

The Policy provides guidance to the organization over sole and single sourcing. However, the Policy should be strengthened to provide specific guidance regarding the initiation of business cases justifying sole or single sourcing and initiation of the NOI. In addition, standard procedures should be developed to support consistent sole and single sourcing practices and compliance with the Policy. The Policy and associated procedures should include clear direction to support transparent sole and single sourcing and compliance with free trade agreements. Non-compliance with procurement policies could result in financial and reputational risk to The City.

The Policy identifies the business rules for the procurement of goods, services or construction using a sole or single source vendor. The Policy was due for revision in September 2017. During the audit, Supply was working on assessing the new free trade agreements (CFTA and CETA) and revising the Policy and, as part of the revision process, was developing associated documents to capture procedural details (Tier 2 document).

4.1.1 Non-Compliance with Policy

As part of this follow-up audit, we reviewed the Policy and tested a sample of sole and single source procurement to assess compliance with the Policy. Testing identified the following instances of non-compliance:

Business Case

The Policy states under Section 3.2 that: "Supply must be notified in advance by the BU via a business justification in the event sole- or single- sourcing is proposed to be the only or most appropriate procurement strategy." We reviewed the business case approval date to determine whether the date was prior to the Award Summary date and noted the following:

The business case for one single source procurement (\$58,912) out of a sample of four was not approved in advance of Supply's approval on the Award Summary. Supply advised that the BU was informed that the PO would not be released until the completed business case was received. The business case and PO were approved on the same date (a day after Supply's approval of the Award Summary). Although the business case was approved by the Dept.ID Owner, the BU Director's approval was missing from the business case.

The business case for one sole source procurement (\$250,000) out of a sample of five was not available. As a result we could not determine whether it was approved in advance of Supply's approval on the Award Summary.

The business case process can be improved by developing Standard Operating Procedures (SOPs) to outline guidance regarding business case submission in advance and review and approval requirements, including description of staff roles and responsibilities and awareness training. In addition, staff advised that Supply uses dollar thresholds to determine when business cases for sole and single source procurement should be initiated (\$25,000). However, the Policy does not specify thresholds to initiate business cases for sole sourcing.

Notice of Intent (NOI)

The Policy states in Section 4.5 that:

“In the event that Supply determines this to be a valid sole-source procurement, Supply must complete and post a Notice of Intent for 10 business days on the following websites:

- City of Calgary
- Alberta Purchasing Connection
- MERX (electronic tendering service), where applicable.”

Testing identified that the NOI was not completed and posted for one sole source (goods and services) procurement (\$142,275) out of five sample files. The NOI process should be improved to ensure consistent completion and posting of NOIs, which should include training on NOI business rules. In addition, Supply advised that they use NWTPA dollar thresholds (\$75,000 for goods and services and \$200,000 for construction) to determine when a NOI for sole source procurement should be completed and posted, and that NOIs may be completed for single sourcing. However, the Policy does not specify dollar thresholds for sole sourcing or NOI requirements for single sourcing.

Reporting

The Policy states in Section 6.1 that “Supply will report all new contract awards and aggregate contract extension figures on a quarterly basis in accordance with the thresholds listed below:

- a. Professional services awards greater than \$10,000 and goods and general services awards greater than \$100,000 – to the CFO.
- b. Professional services awards greater than \$100,000 and goods and general services awards greater than \$500,000 – to Council”.

One sole source file in our sample (\$1,146, 600) was an extension that was not included in the report to Council. Interviews indicated that Supply is reporting all tenders and awards including sole and single source procurements to Council and the Administrative Leadership Team in accordance with the thresholds defined in the Policy, however extensions are not reported to Council. In Q1 2016, Supply prepared a report of single and sole source procurements to the Chief Financial Officer. However, there was no formal reporting to the Chief Financial Officer or the Deputy City Manager, subsequent to Supply’s reorganization from Finance & Supply in March 2017 to the Deputy City Manager’s Office.

4.1.2 Information Collection and Record Management

Supply collects and maintains details of sole and single sourcing, including procurement strategy, award method and NWPTA exception, in various mediums such as File Tracker, hard files and a shared drive. However, there is a lack of consistency with respect to the information maintained in business cases and the Award Summary. There is an opportunity to include collection and retention of information requirements in procedural details to support efficient monitoring and reporting.

In April 2017, Supply implemented the ability to include the NWPTA exception in File Tracker, which was consistent with sample test results. However, we noted that NWPTA exceptions were not included in:

- The business case for one sole source and two single source files; and
- The Award Summary for four single source files.

In addition, one single source business case (\$55,619) was not available during our testing period. However Supply was able to provide the approved business case after completion of the audit testing.

Recommendation 1

The Manager Performance & Quality Management:

- a) Alongside on-going policy revisions, revise Administration Policy FA-036- Procurement Using a Sole or Single Source Vendor to:
 - Provide additional clarity with respect to the business rules that apply to business case and Notice of Intent initiation (i.e. dollar thresholds that apply);
 - Outline reporting requirements to comply with Council or Administrative Leadership Team direction; and
 - Update guidance to meet free trade agreement (Comprehensive Economic and Trade Agreement and Canadian Free Trade Agreement) requirements.
- b) Establish Standard Operating Procedures that support compliance to the Policy on sole and single sourcing, including staff roles and responsibilities and standards on the collection of information in File Tracker and record retention requirements.
- c) Conduct training sessions for Business Unit and Supply staff to provide awareness regarding sole and single source business rules.

Management Response

Agreed.

Action Plan	Responsibility
Supply Management will review current sole and single source practices and free trade agreements and update the existing FA-036 – Procurement Using a Sole or Single Source Vendor Policy and/or process level documents to ensure alignment. Supply will also provide information and/or training to the appropriate audiences regarding Sole and Single Source practices and processes.	<u>Lead:</u> Leader Performance and Quality Management <u>Commitment Date:</u> December 31, 2018

4.2 Monitoring Irregularities

Although Supply identifies irregularities through the procurement review and approval process, there is no formal process regarding the identification (including criteria), reporting, escalation and resolution of potential wrongdoing. Formal procedures to identify and follow up on concerns will promote open and transparent procurement and ensure consistent management practices. Unidentified or unresolved potential wrongdoing may expose The City to financial and reputational risk.

During the procurement request review and approval process, Buyers identify irregularities related to sole and single sourcing, and POs, including COs and PO extensions. Buyers discuss concerns with the BUs initially to address them collaboratively and escalate unresolved issues to Supply’s management team via emails. Management determines what further action is

required and conducts informal follow-ups with the BUs via email. Monitoring and tracking of such incidents, and follow up details are not recorded beyond the emails. We interviewed staff and reviewed emails and noted that no formal reports were available.

Supply’s Director escalates suspected wrongdoing to Corporate Security, mainly through phone calls. Although Corporate Security initiates reviews and investigations, there is no formal process in place to obtain details from Corporate Security in order to ensure that potential wrongdoing is resolved.

Administration Policy FA-033B (Procurement Guiding Principles) states: “The City must conduct procurement activities in a manner that provides best value for The City for each dollar spent. City employees must conduct the procurement process in a manner that is consistent with The City’s suite of procurement policies, the Code of Conduct Policy (Administration Policy HR-LR-005) and the Conflict of Interest Policy (Administration Policy HR-LR-004).” A formal procedure to identify, track, monitor, escalate and resolve potential wrongdoing will help to achieve open and transparent procurement as defined in the Procurement Guiding Principles Policy.

Recommendation 2

The Manager, Performance & Quality Management, develop and implement a formal process to identify, report, escalate and resolve potential wrongdoing.

Management Response

Agreed.

Action Plan	Responsibility
Supply will develop and implement a process to monitor, report and implement corrective actions for potential wrongdoing.	<u>Lead:</u> Manager, Performance & Quality Management <u>Commitment Date:</u> October 31, 2018

4.3 Monitoring Start of Work Indicators

Although Supply runs Match Exception Reports weekly and follows up with related project managers, there is no report that tracks and monitors indicators of work starting prior to contract issuance, such as invoices pre-dating PO creation. The City’s Tender Award Letter states that: “No work shall commence and no payments will be approved until the bonding and insurance documents have been received and the PO has been approved.” Tracking and monitoring indicators of work starting prior to PO approval will help to identify irregularities and trends, and escalation required, to mitigate financial and reputational risk.

Currently, Supply runs Match Exception Reports by using an FSCM query for POs. The focus of the reports is to address pricing or receipt discrepancies to complete the payment to the vendor. We noted the report captures 14 exceptions, some of which could identify potential PO and CO irregularities:

- The voucher extended price exceeds the PO extended price plus or minus the extended price tolerance, and the tolerance is not equal to (<>) 0.
- The vendor on the PO does not equal the vendor on the voucher.
- Invalid PO status
- The extended price percentage tolerance is not 0, and the total amount vouchered exceeds the PO.
- The price percentage tolerance does not equal 0, and the voucher price does not fall within the PO price range.

However, the Match Exception Reports do not include instances where invoices pre-date PO creation.

We ran a report through data analytics software to identify instances of invoices pre-dated to POs for the period of July 1, 2014 to June 30, 2017. The purpose of the report was to illustrate potential indicators. We identified 3,518 invoices where the invoice date pre-dated the PO date and noted that:

- The number of invoices pre-dated to POs increased by 75% from 2014 to 2015(665 to 1,165);
- There was no significant change in the number of invoices from 2015 to 2016; and
- From 2016 to 2017 the number of such invoices declined by 54% (1,155 to 533).

Supply should use a risk-based approach, using similar reporting, to identify indicators of work starting prior to contract issuance.

Recommendation 3

The Manager, Performance & Quality Management, develop reporting to track and monitor indicators of work starting prior to contract issuance, such as invoices pre-dating the Purchase Order date, and identify irregularities, trends and follow-up required.

Management Response

Agreed.

Action Plan	Responsibility
Supply, with Finance’s assistance, will develop indicators of work starting prior to contract issuance. Supply will implement a process to monitor, report and follow-up where required.	<u>Lead:</u> Manager, Performance & Quality Management <u>Support:</u> Finance <u>Commitment Date:</u> December 31, 2018

Appendix A

AC2010-41 PROCUREMENT PHASE 2- AR10-02				
Item #	Rec. #	Recommendation	Inherent Risk	Management Response and Basis for Recommendation Closure
1	3	We recommend that the Director, Finance & Supply establish criteria for 'sole sourcing' contract awards and administrative control processes that ensure proper approval and monitoring on the use of 'sole sourcing'.	H	<p>Management Response:</p> <p>The criteria for single-source contracting are contained in Trade (TILMA) legislation. The conditions imposed by TILMA introduced in 2009 have been incorporated and are clearly defined and addressed in the new Supply Management Procurement policies implemented in March 2010. FA-36 Using Sole or Single Source Vendor.</p> <p>We will continue to communicate as required the implications of TILMA on The City's procurement activities to business unit leaders and staff, with key emphasis on new limitations on single and sole sourcing capabilities.</p> <p>Basis for Recommendation Closure:</p> <p>This recommendation is complete as a result of the new policies reflecting the NWPTA rules for single and sole source contracts.</p> <p>Closed on October 31, 2011.</p>
2	4	<p>We recommend that the Director, Finance & Supply:</p> <ul style="list-style-type: none"> Establish business rules and processes mandating the reevaluation of any contracts where change orders exceed a pre-determined specified 	H	<p>Management Response:</p> <p>Supply Management will investigate options to integrate a more robust and detailed change order management process into the FSCM ERP system. In the interim period we will define and implement business rules detailing change order re-evaluation threshold levels.</p> <p>We will determine reporting capability on Change Order transactions, and implement where this is determined to be feasible.</p>

AC2010-41 PROCUREMENT PHASE 2- AR10-02				
Item #	Rec. #	Recommendation	Inherent Risk	Management Response and Basis for Recommendation Closure
		<p>percentage of the original contract;</p> <ul style="list-style-type: none"> Clearly delineate the financial signing authority and limits for approving COs; and Develop processes to systematically extract, review, and analyze CO information related to POs. 		<p>Basis for Recommendation Closure:</p> <ul style="list-style-type: none"> <u>Signing Authority and Change Order Approval Limits</u> A new flowchart outlines the approval process for new purchase orders or change orders. The approval process, which is electronically enforced using FSCM's workflow approval functionality, ensures that any new purchase order or change order has been approved by the correct authority level within Supply Management. The City Manager established signing authority levels. This delegation establishes signing authority at The City. This document matches the dollar values set out in the work flow diagram. <u>Processes to Reevaluate Contracts, and Review and Analyze PO Information</u> Workflow is outlined that is triggered by a business unit action that meets one or more "procurement red flag indicators" it is then escalated if required. There are 5 procurement impropriety indicators of interest regarding change orders which deal with various potential extension - related issues. These include both significant, repeated extensions, extensions requested without proper back-up documentation, and extensions requested without proper clauses in the Request for Tender/Request for Proposal. <p>Change orders that "exceed a predetermined increase by percentage" or "put The City at risk", such as those that cause a project to exceed New West Partnership Trade Agreement thresholds, now fall under the Red Flag procedure and can therefore be subject to re-assessment.</p> <p>Supply Management Operations review report shows Procurement Activity metrics. This report shows evidence of tracking of change order frequency and amount by Supply Management operating area. Finance has also noted that other reports are available upon request for every month between January 2010 and April 2014.</p> <p>Closed on June 30, 2014.</p>

AC2010-41 PROCUREMENT PHASE 2- AR10-02				
Item #	Rec. #	Recommendation	Inherent Risk	Management Response and Basis for Recommendation Closure
3	5	We recommend that the Director, Finance & Supply review and, where necessary, strengthen processes and controls to ensure that work does not start until the contract has been issued.	M	<p>Management Response:</p> <ul style="list-style-type: none"> a) Effective April 12, 2010, Finance & Supply monitor all invoice dates against Project Purchase Order dates. Instances of invoices pre-dating purchase order creation are investigated and reported weekly by Accounts Payable. b) Finance & Supply have implemented the required monitoring process and will complete the SOP documentation. <p>Policies and LFME content will be updated as required.</p> <p>Basis for Recommendation Closure:</p> <ul style="list-style-type: none"> • The procurement impropriety indicators specifically address the monitoring of supply dates against Project Purchase Order dates. Monitoring is through the Red Flag process. The process has a built mechanism for escalation of this process to the Manager of Supply for monthly review. Although this is not reported weekly by Accounts Payable, issues are being escalated to the Supply Manager. • The Red Flag Standard Operating Procedures and the Workflow diagram show strengthened controls and processes to ensure work does not start before a contract has been issued. • FSCM includes a three way matching control that checks for a match with the invoice, the Purchase Order creation date and goods received. They run a monthly match exception report that would include instances where the Purchase Order is dated after the invoice. These reports are provided to the procurement sourcing groups and the buyers in Supply. Under the Red Flag process, buyers must report these instances of dissident spending. <p>Closed on June 30, 2014.</p>