

## **PROCUREMENT RESPONSE UNDER THE STATE OF LOCAL EMERGENCY AUDIT**

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### **EXECUTIVE SUMMARY**

The City Auditor's Office issued the Procurement Response under the State of Local Emergency (SOLE) Audit Report to Administration on October 29, 2014. The report includes Administration's response to six recommendations raised by the City Auditor's Office to reduce the financial and reputational risk exposure for a future emergency event and one recommendation to improve current procurement processes.

### **RECOMMENDATIONS**

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

### **PREVIOUS COUNCIL DIRECTION / POLICY**

Bylaw 30M2004 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 2014 Annual Audit Plan was approved on December 12, 2013.

### **BACKGROUND**

This audit was undertaken as part of the approved City Auditor's Office 2014 Annual Audit Plan. The objective of this audit was to assess the effectiveness of processes implemented by the Calgary Emergency Management Agency (CEMA) that supported timely procurement and subsequent payments related to the SOLE. An additional objective was to identify potential opportunities to improve the current procurement process based on the SOLE procedures and lessons learned.

### **INVESTIGATION: ALTERNATIVES AND ANALYSIS**

CEMA was designated as responsible for combating and alleviating the effects of the flood during the SOLE. CEMA's top priorities were the preservation of life and protection of critical infrastructure. At the same time an ongoing key priority for The City was to manage costs efficiently.

During the SOLE 768 purchase orders (PO) were created totalling \$61.6M, and \$1.6M was spent on 2,343 credit card payments to ensure critical goods and services were effectively delivered. The audit scope included all PO and credit card transactions that used the flood reference codes. Internal staff labour expenses were not included in this review.

Regular procurement processes such as requisitions by business units, open bids and three-way matching were not followed during the SOLE. Other methods and controls were implemented to ensure that CEMA could respond quickly to acquire and deploy resources for the event to protect the safety, health and welfare of people and limit the damage to property. These methods supported timely procurement of goods and services. As a result of expedited processes, The City acknowledged an increase in the likelihood of financial and reputational risk associated with potentially paying for goods and services not received, overpaying for goods and services, and/or making unnecessary purchases.

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Overall we assessed the risk mitigation effectiveness of the SOLE procurement processes as reasonable. While the observed level of financial and reputational risk exposure may be acceptable under the extraordinary circumstances of the flood, we raised recommendations to further mitigate the risk exposure should a future emergency event occur.

Regarding our second audit objective, we concluded that current procurement cannot be significantly altered without impacting the objective of the process to be fair, open, and transparent and provide best value for citizen's tax dollars. We raised one recommendation to support greater cost efficiencies by improving current procurement processes.

Administration agreed to the recommendations focused on risk mitigation and provided action plans with commitment dates no later than June 30, 2015. The City Auditor's Office will track the implementation of these commitments as part of our on-going follow-up process.

### **Stakeholder Engagement, Research and Communication**

This audit was conducted with the Director Finance acting as the principal audit contact within Administration. Additional support and cooperation was provided by management and staff across the City, including CEMA and Finance & Supply.

### **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)**

This report has been reviewed for alignment with The City of Calgary's Triple Bottom Line (TBL) Policy Framework. No implications are identified.

### **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.

### **REASONS FOR RECOMMENDATIONS:**

Audit Committee's Terms of Reference states: "Audit Committee receives directly from the City Auditor any individual Audit Report and forwards these to Council for information."

## **ATTACHMENTS**

Procurement Response under the State of Local Emergency Audit Report