



Hamilton

CITY OF HAMILTON

**CITY MANAGER'S OFFICE
Audit Services Division**

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| TO: Chair and Members Audit, Finance and Administration Committee | WARD(S) AFFECTED: CITY WIDE |
| COMMITTEE DATE: January 17, 2013 | |
| SUBJECT/REPORT NO: Follow Up of Audit Report 2011-03 - Sole and Single Source Procurement (AUD13003) (City Wide) | |
| SUBMITTED BY: Ann Pekaruk Director, Audit Services City Manager's Office | PREPARED BY: Ann Pekaruk 905-546-2424 x4469 |
| SIGNATURE: | |

RECOMMENDATION

That Report AUD13003, respecting the follow up of Audit Report 2011-03, Sole and Single Source Procurement, be received.

EXECUTIVE SUMMARY

Audit Report 2011-03, Sole and Single Source Procurement, was originally issued in June, 2011 and management action plans with implementation timelines were included in the Report. In November, 2012, Internal Audit conducted a follow up exercise to determine that appropriate and timely actions had been taken. Of the four recommendations that management agreed to in the original Report, three have been completed. The fourth recommendation required management action plans from both Procurement and Public Works (PW). Procurement's action plan has been completed while PW's plan has been initiated.

Alternatives for Consideration – Not Applicable

FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: None.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

Audit Report 2011-03, Sole and Single Source Procurement, was originally issued in June, 2011. The Report provided four recommendations pertaining to compliance with the specific provisions for the issuance of sole and single source contracts and related checks and balances.

It is normal practice for Internal Audit to conduct follow up reviews within a 12-18 month period following issuance of the original report in order to determine whether action plans committed to by department management have been implemented.

POLICY IMPLICATIONS

City of Hamilton Procurement Policy By-law: 12-255

RELEVANT CONSULTATION

The results of the follow up were provided to management responsible for the administration of the City's single source contracts – Corporate Services (Procurement - Financial Services) and Public Works (Operations & Waster Management, Environment & Sustainable Infrastructure and Transportation, Energy & Facilities), the most frequent user of these types of procurement.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

The report attached as Appendix "A" to Report AUD13003 contains the first three columns as originally reported in Report 2011-03 along with an added fourth column indicating Internal Audit's comments as a result of the follow up work.

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Three of the four recommendations have been fully implemented. These are: ensuring Policy 11 forms were authorized before the goods/services were purchased; documenting support for the decision to single source from vendors with which the City has developed long standing relationships; and developing long term project needs to allow procurement to be tendered as one large project rather than broken down into smaller components for single sourcing.

The fourth recommendation has been completed by Procurement and initiated by PW. Procurement developed a new Policy 11 form. Public Works, however, did not consistently ensure adequate and detailed information was included to support the decision that individual single source procurement was more cost effective or beneficial to the City.

ALTERNATIVES FOR CONSIDERATION

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Not applicable.

CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

Financial Sustainability

- ◆ Delivery of municipal services and management of capital assets/liabilities in a sustainable, innovative and cost effective manner.

APPENDICES / SCHEDULES

Appendix "A" to Report AUD13003

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**CITY OF HAMILTON
INTERNAL AUDIT REPORT 2011-03
SOLE AND SINGLE SOURCE PROCUREMENT
FOLLOW UP**

P – Procurement
PW – Public Works

| # | OBSERVATIONS OF EXISTING SYSTEM | RECOMMENDATION FOR STRENGTHENING SYSTEM | MANAGEMENT ACTION PLAN | FOLLOW UP (NOVEMBER 2012) |
|----|---|---|---|---|
| 1. | <p><u>Pre-Authorization of Policy 11 Form</u> Purchasing Policy 11 requires the pre-authorization of the Policy 11 form before the goods / services are procured or the work is initiated. This rule is not always followed for single source purchases. Even though the Procurement Section is diligent in pointing out non-compliance with this stipulation in the Quarterly Status Reports to Council, Internal Audit found further instances in which vendors were engaged and work was completed or the invoice received for work completed predated the Policy 11 form approval date. These instances were reported as single source rather than non-compliant on the reports to Council.</p> | <p>That the Procurement Section review and compare, on a regular basis, vendors' invoices to the corresponding Policy 11 forms in order to determine if the forms were authorized before the goods / services were purchased. If they were not, then such procurements should be categorized as non-compliant when reported to Council.</p> | <p>P - Agreed. Procurement has updated the Policy 11 form as of May 26, 2011 with a header to reinforce the requirement that approvals are required prior to vendors being engaged.</p> <p>Through the Purchasing Review Process and the Procurement Advisory Committee, the Policy 11 process is changing. Policy 11 forms will only be used for pre-authorization of a vendor and will no longer be used after a vendor has been engaged. A new form (Form 19) will be used if a vendor has already been engaged. This will eliminate non compliant Policy 11 forms. Reviews will be performed by F&A staff when processing invoices with Policy 11 forms to ensure the date of the invoices is after the approval of the Policy 11 form.</p> | <p>Completed. The Policy 11 forms were updated on May 26, 2011 with a reminder to users that the forms must be approved before the vendor is engaged. In addition, changes to the Procurement Policy approved by Council in December, 2011 now requires non-compliance (such as that identified by F&A staff where an invoice is presented for processing before a Policy 11 pre-authorization form has been completed) to be identified on a Policy 19 form and reported to Council.</p> |

**SOLE SOURCE AND SINGLE SOURCE PROCUREMENT
FOLLOW UP – NOVEMBER 2012**

| # | OBSERVATIONS OF EXISTING SYSTEM | RECOMMENDATION FOR STRENGTHENING SYSTEM | MANAGEMENT ACTION PLAN | FOLLOW UP (NOVEMBER 2012) |
|----|--|--|---|--|
| 2. | <p><u>Justification for Sole and Single Source Purchases</u></p> <p>Purchasing Policy 11 defines sole source as having only one known source for the goods / services required. All six of the sole source purchases reviewed by Internal Audit appear justified as the vendor was the only known supplier or distributor or the City had an agreement in place with a vendor for an uncommon or unusual service.</p> <p>In regard to the single source purchases sampled by Internal Audit, the justification is not as distinct. Similar, repetitive reasons such as – the consultant has a long standing relationship with the client department, the vendor can draw on prior experience (even though it may be 6-10 years old) and the consultant could prepare a report quickly – were noted as explanations to single source.</p> | <p>That a more quantifiable and comparable business case be made to support the decision to single source from vendors with which the City has developed a long standing relationship.</p> | <p>PW – Agreed. Public Works will provide additional documentation to quantify single source awards to long term vendors.</p> | <p>Completed. Public Works staff are presenting a more quantifiable and comparable business case when completing a Policy 11 form to support the decision to single source from a vendor with which the City has developed a long standing relationship.</p> |

**SOLE SOURCE AND SINGLE SOURCE PROCUREMENT
FOLLOW UP – NOVEMBER 2012**

| # | OBSERVATIONS OF EXISTING SYSTEM | RECOMMENDATION FOR STRENGTHENING SYSTEM | MANAGEMENT ACTION PLAN | FOLLOW UP (NOVEMBER 2012) |
|----|--|---|--|---|
| 2. | <p><u>Justification for Sole and Single Source Purchases (Cont'd.)</u></p> <p>In one instance, a contractor who had been awarded the second phase of a multi-phase project through an RFP was also subsequently retained as single sourced for phases 3 and 4 based on the prior involvement. It is acknowledged that it is usually advantageous for the City to engage the same contractor, given their knowledge of a project. However, it is even more important to ensure that a project uses a competitive purchasing process, whenever possible.</p> | <p>That departments be required to fully develop long term needs at the outset of a project to allow procurement to be tendered as one large project rather than broken down into smaller ones for single sourcing.</p> | <p>PW – Agreed. On multi phase projects, Public Works will provide documentation that demonstrates the cost benefit analysis of awarding succeeding phases to the same vendor.</p> | <p>Completed. A review of the explanations provided by the departments requesting purchases through Policy 11 forms indicates that the departments are aware of their requirement to allow procurement to be tendered as one large project. Further, the Procurement Section is reviewing forms and notifying the departments when procurements should be tendered.</p> |

**SOLE SOURCE AND SINGLE SOURCE PROCUREMENT
FOLLOW UP – NOVEMBER 2012**

| # | OBSERVATIONS OF EXISTING SYSTEM | RECOMMENDATION FOR STRENGTHENING SYSTEM | MANAGEMENT ACTION PLAN | FOLLOW UP (NOVEMBER 2012) |
|----|---|---|--|--|
| 3. | <p><u>Documentation for Single Source Procurement</u></p> <p>Purchasing Policy 11 defines single source as there being more than one vendor capable of supplying the goods / services in the open market but only one is recommended because it is more cost effective or beneficial to the City.</p> <p>In nine (9) of fourteen (14) procurements sampled, it is Internal Audit's opinion that the information provided on the Policy 11 request form was not detailed enough to demonstrate the cost effectiveness or greater benefit to the City. Details should explain why the purchase must be made through this non-competitive process.</p> | <p>That the Policy 11 single source procurement form and attachments contain adequate, detailed information to support the decision that it is more cost effective or beneficial to the City to use this procurement method. The development of a simple assessment tool by the Procurement Section to provide guidance to choosing the proper purchasing category and the proper documentation to support the procurement method should be considered.</p> | <p>PW – Agreed. Public Works will provide additional documentation to quantify single source awards that will support the decision that it is more cost effective or beneficial to the City to use this procurement method. Further, Public Works will provide input to the Procurement Section to assist in developing an assessment tool. Implementation Date - Q4 2011.</p> <p>P – Agreed. Procurement has updated the Policy 11 form as of May 26, 2011 to assist the client departments in selecting the correct purchasing category. Examples of sole and single source procurements have been included on the form.</p> | <p>Initiated. Three of the four Policy 11 forms sampled did not provide adequate documentation quantifying the cost effectiveness of the decision to single source and/or did not include an explanation demonstrating how the decision to single source is a benefit to the City.</p> <p>Completed. Procurement has developed a new Policy 11 form. The explanation provided by the departments requesting procurement under Policy 11 is reviewed by a Procurement Analyst or Specialist and clarification is obtained when requested.</p> |