

CITY OF HAMILTON

CITY MANAGER'S OFFICE
Audit Services Division

TO: Chair and Members Audit, Finance and Administration Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: June 22, 2011	
SUBJECT/REPORT NO: Audit Report 2011-03 - Sole and Single Source Procurement (AUD11024) (City Wide)	
SUBMITTED BY: Ann Pekaruk Director, Audit Services City Manager's Office	PREPARED BY: Ann Pekaruk 905-546-2424 x4469
SIGNATURE:	

RECOMMENDATION

- (a) That Report AUD11024 respecting Audit Report 2011-03, Sole and Single Source Procurement, be received;
- (b) That the Management Action Plans as detailed in Appendix "A" of Report AUD11024 be approved; and,
- (c) That the General Managers of Corporate Services and Public Works be directed to instruct the appropriate staff to have the Management Action Plans (attached as Appendix "A" to Report AUD11024) implemented.

EXECUTIVE SUMMARY

The 2011 Internal Audit work plan approved by Council included an audit to review compliance with the specific provisions for the issuance of sole and single source contracts and related checks and balances. Recommendations were made to strengthen processes and identify opportunities for administrative improvements.

**SUBJECT: Sole and Single Source Procurement (AUD11024)
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The results of the audit are presented in a formal audit report (2011-03) containing observations, recommendations and management responses. The Report 2011-03 is attached as Appendix "A" to Report AUD11024.

Alternatives for Consideration – Not Applicable

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

Financial: None.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

Purchasing goals and objectives include the procurement of goods and/or services in an efficient, timely and cost effective manner in accordance with the Purchasing Policy approved by Council. The policy encourages a competitive bidding process that ensures the best value of an acquisition is obtained and the objective and equitable treatment of all vendors.

Where there is only one known source for goods and/or services, the vendor is sole sourced. Single sourcing occurs when there may be more than one source of supply in the open market but only one of these is recommended by the client department for consideration on the grounds that it is more cost effective or beneficial to the City. The audit reviewed the compliance with the specific provisions for the issuance of sole and single source contracts and related checks and balances.

The audit was scheduled as part of the 2011 Internal Audit work plan approved by Council. The audit fieldwork was completed in April 2011. The results of this audit are attached as Appendix "A" of Report AUD11024.

The Audit, Finance and Administration Committee receives and approves final audit and review reports as part of its responsibilities for the oversight of governance and control.

POLICY IMPLICATIONS

City of Hamilton Purchasing Policy By-law: 09-230

RELEVANT CONSULTATION

Appendix “A” to Report AUD11024 includes management action plans which reflect the responses of management and staff responsible for the administration of the City’s sole and 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)

Normal procurement procedures consist of obtaining requests for quotations, tenders, and proposals. Single and sole source procurements require the completion of Policy 11 forms along with explanations as to the reason for the use of the policy. Depending on the purchase amount, the Director, General Manager, or Council are required to approve the Policy 11 request. The audit assessed the administration and compliance of Policy 11 with regard to sole and single source procurements.

A formal Audit Report (2011-03) containing observations, recommendations and resulting management action plans was issued. The implementation of the four (4) recommendations included in the Audit Report 2011-03 (attached as Appendix “A” of Report AUD11024) will strengthen and improve operating controls. The recommendations are as follows:

- Review vendors’ invoices to the corresponding Policy 11 forms to determine if the forms were authorized before the goods/services were purchased and report all non-compliant procurements to Council.
- Make comparable and quantifiable business cases to support the decisions to single source from vendors with which the City has developed long standing relationships.
- 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 components for single sourcing ease.
- Ensure adequate and detailed information is included to support the decision that individual single source procurement is 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 AUD11024: Audit Report 2011-03

ap:tk

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

P – Procurement
 PW – Public Works

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
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 pre-dated 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>

**SOLE SOURCE AND SINGLE SOURCE CONTRACTS AUDIT
APRIL 2011**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
2.	<p><u>Justification for Sole and Single Source Purchases</u> 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>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 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>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. Public Works will provide additional documentation to quantify single source awards to long term vendors.</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>

**SOLE SOURCE AND SINGLE SOURCE CONTRACTS AUDIT
APRIL 2011**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
3.	<p><u>Documentation for Single Source Procurement</u> 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>