

## **Performance Audit of Standing Offers for Professional Engineering and Architectural Services**

Presented To: Audit Committee

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Meeting Date: May 24, 2022

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Type: Routine Management Reports

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Prepared by: Ron Foster  
Auditor General

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Recommended by: Auditor General

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### **Report Summary**

This report provides a recommendation regarding the Standing Offer arrangements for Professional Engineering and Architectural Services.

### **Resolution**

THAT the City of Greater Sudbury approves the recommendations as outlined in the report entitled “Performance Audit of Standing Offers for Professional Engineering and Architectural Services”, from the Auditor General, presented at the Audit Committee meeting on May 24, 2022.

### **Relationship to the Strategic Plan, Health Impact Assessment and Community Energy & Emissions Plan (CEEP)**

This report supports the strategic goal of demonstrating innovation and cost-effective service delivery.

### **Financial Implications**

No immediate financial implications.

### **Resources Cited**

Purchasing By-Law 2014-1

<https://www.greatersudbury.ca/do-business/purchasing-section-and-procurement-opportunities/policiesterms-and-conditions/purchasing-by-law/purchasing-by-law-2014-1-consolidation-to-oct-1-2019/>

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Performance Audit of  
Standing Offers for  
Professional Engineering  
and Architectural  
Services

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May 10, 2022

Final Report

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## **OBJECTIVE**

The objective of this performance audit is to assess the extent of regard for economy, efficiency and effectiveness of the Standing Offer arrangements for professional engineering and architectural services.

## **BACKGROUND**

A Standing Offer is an arrangement that allows the City to purchase repetitively goods, services or construction from one or more suppliers at prearranged prices, under set terms and conditions, when and if these are requested. Standing Offers may be established in instances where the actual demand for an item is not known at the outset, and delivery is to be made when a requirement arises. Once a Standing Offer is in place, the goods or services may be purchased in accordance with the terms of such Standing Offer by authorized persons up to his or her purchasing authority policy limits subject to Council approved budgets and the requirements of trade agreements.

In 2014, staff sought and obtained approval from Council for the process that applies to the current Standing Offers for professional engineering and architecture services. This process was developed to allow the City to save time and resources by making purchases from prequalified suppliers for a three-year period.

Standing Offers are widely used in the municipal sector. In the City of Greater Sudbury, Standing Orders account for over \$6 million of expenditures annually for professional engineering and architectural services.

## **METHODOLOGY & SCOPE**

This audit included interviews of staff, analysis of trade agreements, by-laws, policies, procedures, purchases, expenditures and tests of controls for the period January 1, 2019, to December 31, 2021.

## **EXECUTIVE SUMMARY**

Standing Offers are an efficient and effective method for purchasing professional engineering and architecture services from prequalified suppliers for capital projects with lower risks and complexity. However, the City's current Standing Offers for engineering and architectural services do not fully align with the goals and objectives of the Purchasing By-Law which, among other things, was established to encourage competition among suppliers and to maximize savings for taxpayers. Implementing our recommendations will improve the efficiency of these Standing Offers, encourage competition and provide additional savings for taxpayers.

## **AUDIT STANDARDS**

We conducted our audit in accordance with Generally Accepted Government Auditing Standards which require that we adequately plan audits; properly supervise staff; obtain sufficient, appropriate evidence to provide a reasonable basis for audit findings and conclusions; and document audits. For further information regarding this report, please contact Ron Foster at the City of Greater Sudbury at 705-674-4455 extension 4402 or via email at [ron.foster@greatersudbury.ca](mailto:ron.foster@greatersudbury.ca)

## **OBSERVATIONS AND ACTION PLANS**

### **1. Opportunities for Improvement**

Standing Offers for professional engineering and architectural services are an essential tool for delivery of less complex and lower risk projects within the City's capital program. They also allow staff to take advantage of late notice grants and Council resolutions to conduct capital work on an expedited schedule. Despite these advantages, opportunities exist to improve the efficiency and economy of these Standing Offer arrangements.

The following table identifies annual expenditures by work category using these Standing Offers.

**Table 1 – Standing Order Expenditures**

<b>Work Categories</b>	<b>Approved Vendors<sup>1</sup></b>	<b>2019 6-Month</b>	<b>2020 Annual</b>	<b>2021 Annual</b>
Proposal Writing	2	5.0	16.1	-
Water Treatment Facilities	5	-	1,397.6	1,359.6
Wastewater Treatment Facilities	5	198.3	1,430.4	1,114.2
Wastewater Collection Systems	5	807.3	1,950.7	1,858.0
Pipeline Condition Assessment	5	-	-	-
Bridges and Right of Way	5	601.4	1,749.2	1,132.7
Hydrogeology & Geotech Engineering	5	74.0	1,099.1	991.6
Topographical Survey	3	-	48.4	-
Architectural Services	4	-	18.8	-
Engineering Services for Facilities	7	-	0.3	0.5
Solid Waste	5	-	135.8	-
<b>TOTAL EXPENDITURES (In \$ 000s)</b>		<b>1,686.0</b>	<b>7,846.4</b>	<b>6,456.6</b>

#### **Observations:**

1. Suppliers were not provided with annual volumes of work completed in the past in the bid solicitation documents. As a result, vendors were not able to submit competitive bids.
2. Actual annual volumes varied significantly across the categories. As a result, there may be reduced competition in the future.
3. The scoring process for prequalifying vendors allowed vendors to continue in the process regardless of their financial score. As a result, vendors were not encouraged to submit competitive bids.
4. Standing offers were awarded to multiple suppliers rather than to the lowest priced qualified suppliers needed to meet the City's annual needs. As a result, cost savings opportunities were lost.

#### **Recommendations:**

1. Provide a summary of the value of work assigned over the past three years within the bid solicitation documents so that suppliers can submit competitive bids.
2. Revise the number of work categories to improve the efficiency of the Standing Offers.
3. Revise the scoring process for prequalifying vendors to ensure that technically qualified vendors with a financial proposal over 10% of the weighted average hourly rate are disqualified to ensure that standing offers are only issued to qualified suppliers with the most competitive prices.

<sup>1</sup> Denotes approved 'Full Scope' vendors

4. Award Standing Offers to only to the lowest priced qualified suppliers necessary to meet the City's annual requirements.

### **Management Response and Action Plan**

1. *Agreed. Providing a summary of the value of work previously assigned in the new bid solicitation will provide guidance and set expectations for vendors.*
2. *Agreed. Only Categories with a sufficient volume of work should be considered to be included in the Standing Offer. Insufficient work will not meet the expectations of vendors, and may reduce the number of vendors bidding on future bid solicitations. Staff are currently reviewing the number of categories and are proposing to delete some categories in the new bid solicitation.*
3. *Agreed. Consideration will be given to moving to a two-envelope procurement process where only the technically compliant bids have their financial envelopes opened. Consideration will also be given to reducing the number of vendors in each category ensuring that the highest scoring proponents are awarded a portion of the future work. The new bid solicitation will be revised accordingly.*
4. *The process above outlines how the City will be limiting the financial differences between the vendors, limiting the number of vendors, and ensuring that only the highest scoring vendors are considered for future work.*

## **2. Legal Obligations**

The City's purchasing policies, practices and activities are subject to the following:

### **I. City's Purchasing By-Law 2014-1:**

The purposes, goals and objectives of the City's Purchasing By-law 2014-1 are:

- (a) to encourage competition among Suppliers;
- (b) to maximize savings for taxpayers;
- (c) to ensure service and product delivery, quality, efficiency and effectiveness;
- (d) to ensure fairness among bidders; and
- (e) to ensure openness, accountability and transparency while protecting the financial best interests of the City of Greater Sudbury;
- (f) to have regard to the accessibility of persons with disabilities for Goods, Services and Construction purchases by the City of Greater Sudbury; and,
- (g) to have regard to the preservation of the natural environment and to encourage the use of environmentally friendly Goods, Services and Construction.

Subsection 5(7) of the Purchasing By-law provides that Bid Solicitations shall comply with all applicable law and trade agreements.

### **II. Trade Agreements:**

On July 1 2017, the Agreement on Internal Trade (AIT) was replaced with the Canadian Free Trade Agreement (CFTA). The Ontario-Quebec Trade and Co-operation Agreement (OQTCA) mainly aligns with the CFTA and was updated last on September 14, 2021. The province of Ontario became subject to The Canada-European Union Comprehensive Economic and Trade Agreement (CETA) on September 21, 2017.

For covered procurement<sup>2</sup> which has specific financial thresholds for individual procurements, these

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<sup>2</sup> Under the CFTA Goods & Services over \$100,000 and construction over \$250,000. Under the CETA Goods and Services over \$363,000 and Construction over \$ 9.1 Mill. Under the OQTCA, Goods, Services and Construction over \$100,000.

agreements require fair, open and transparent procurement process as well as:

- Alignment of procurement policies and procedures;
- Maximum allowable time periods in which a Standing Offer can be closed for participation;
- Explicit rules for call-ups to ensure transparency to all qualified suppliers;
- Rules and procedures around evaluation criteria, debriefings, and duration of bid postings;
- Administrative procedure for suppliers to challenge a procurement process conducted; and
- Annual reporting on number and aggregate value of goods, services and construction for competitive and non-competitive procurements covered by CFTA & CETA.

#### **Observations:**

1. Standing Offers are awarded to multiple suppliers instead of to the lowest qualified group of suppliers needed to meet the City's annual requirements. This practice does not fully align with objectives (a), (b) and (d) of the Purchasing By-law.
2. Call-up procedures allocate work roughly evenly across all qualified bidders rather than to the lowest qualified group of suppliers necessary to meet the City's annual needs. This practice does not align with objectives (a) (b) and (d) of the Purchasing By-law.
3. The Purchasing By-Law 2014-1 was last updated on October 1, 2019, and consequently may not adhere to all of the requirements of the trade agreements.

#### **Recommendations:**

1. Revise the current practice of awarding Standing Offers to multiple suppliers unless there are valid operational reasons for having more than one supplier.
2. Formalize call-up procedures to ensure subsequent purchases will be made consistently from the most economical group of suppliers needed to meet the City's annual requirements.
3. Update the Purchasing By-Law with a view to ensuring adherence to the trade agreements.

#### ***Management Response and Action Plan***

1. *Agreed. Staff will consider reducing the number of vendors per category in the new bid solicitation. This reduction will be based on the expected volume of work and represent a minimum of three candidates for the categories with sufficient volume.*
2. *Agreed. With the recommended changes to the number of vendors per category and the financial scoring, there will be less variation in weighted average hourly cost by not considering bids that are deemed too high. This will ensure that technically qualified bids are financially competitive and represent value. The "Various Engineering Consultant Services Standing Offer Procedures" manual and the new bid solicitation will be updated with these recommendations.*
3. *Agreed. The Purchasing By-Law is being updated and the recommendations of this audit will be included in that review.*

**Table 2 – Summary of Significant Risks**

Risk	Total No. of Risks	Risks (Before Controls)			Residual Risks (After Controls)		
		High (15 to 25)	Med (9 to 14.99)	Low (1 to 8.99)	High (15 to 25)	Med (9 to 14.99)	Low (1 to 8.99)
Reputation (R)	2	2	0	0	0	2	0
Operational (O)	5	5	0	0	0	2	3
Financial (F)	4	4	0	0	0	3	1
Legal (L)	4	4	0	0	0	2	2
<b>TOTAL</b>	<b>15</b>	<b>15</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9</b>	<b>6</b>

**Table 3 – Significant Risks**

Risk	Description of Risk	Inherent Risk	Residual Risk*
F1	Standing Offers may not be the most economical way to procure items.	20	13
L2/R2	Standing Offers may not comply with the Purchasing By-Law.	20	13
F2/O1	Standing Offers may not be the most efficient way to procure items.	15	12
L1/R1	Legal and regulatory obligations of trade agreements may not be met.	20	12
O2/F3	Standing Offers may not be the most effective way of procuring items.	20	10
O3	Standing Offers may not be renewed on a timely basis.	16	8
O4/L3	Other City departments may ignore Standing Offers.	15	8
F4/O5	Supplier performance issues may not be addressed.	16	8
L4	Suppliers may not adhere to the terms and conditions of Standing Offers.	16	8

\* Eliminating residual risks (risks after controls) is not cost-effective.

### Appendix 1 – Risk Assessment Criteria

Impact	Services	Technology	People	Strategic	Legal/Reputational	Financial
<b>Very Minor (1)</b>	<ul style="list-style-type: none"> <li>• Less than 90% of service objectives achieved.</li> </ul>	<ul style="list-style-type: none"> <li>• Minor performance issues or lack of availability of secondary systems or data loss or corruption.</li> </ul>	<ul style="list-style-type: none"> <li>• Minor reportable employee injury.</li> <li>• Increase in number of union grievances.</li> </ul>	<ul style="list-style-type: none"> <li>• Minor instances of actions that are at odds with strategic priorities.</li> </ul>	<ul style="list-style-type: none"> <li>• Small amount of negative media coverage or complaints to City.</li> <li>• Non-lasting damage or no reputational damage</li> <li>• Theft or Fraud under \$1,000.</li> </ul>	<ul style="list-style-type: none"> <li>• Uninsured loss, cost overruns or fines &lt; \$10K</li> <li>• Insured loss &lt; \$100K</li> <li>• Loss of replaceable asset.</li> </ul>
<b>Minor (2)</b>	<ul style="list-style-type: none"> <li>• Less than 75% of service objectives achieved.</li> <li>• Unable to perform non-essential service.</li> </ul>	<ul style="list-style-type: none"> <li>• Performance or availability issues with secondary systems or data loss or corruption</li> <li>• Disclosure of non-confidential but embarrassing information.</li> </ul>	<ul style="list-style-type: none"> <li>• Reportable employee injury.</li> <li>• Loss of key staff but able to recruit competent replacements</li> <li>• Significant increase (&gt;10%) in number of union grievances.</li> </ul>	<ul style="list-style-type: none"> <li>• Instances of actions at odds with strategic priorities.</li> </ul>	<ul style="list-style-type: none"> <li>• Complaints elevated to the Director level.</li> <li>• Short-term repairable damage to City's reputation</li> <li>• Public outcry for discipline of employee.</li> <li>• Moderate amount of negative media coverage</li> <li>• Theft or Fraud of \$1,000 to \$10,000.</li> </ul>	<ul style="list-style-type: none"> <li>• Uninsured loss, cost overruns or fines of \$10K to \$100K</li> <li>• Insured loss &lt; \$100K - \$1M</li> <li>• Inefficient processes</li> <li>• City's actions result in reduced economic development.</li> </ul>
<b>Moderate (3)</b>	<ul style="list-style-type: none"> <li>• Less than 60% of service objectives achieved.</li> <li>• Unable to perform essential service but alternatives exist.</li> </ul>	<ul style="list-style-type: none"> <li>• Disruptions or performance issues with significant systems or data loss or corruption</li> <li>• Recoverable data loss from an important system.</li> <li>• Minor disclosure of confidential information.</li> </ul>	<ul style="list-style-type: none"> <li>• Multiple employee injuries or long-term disability from one incident.</li> <li>• Inability to retain or attract competent staff.</li> <li>• Increase in stress leave, sick leave or WCB claims.</li> <li>• Work-to-rule union disagreement or short-term strike.</li> </ul>	<ul style="list-style-type: none"> <li>• Numerous actions are at odds with strategic priorities.</li> </ul>	<ul style="list-style-type: none"> <li>• Public/media outcry for removal of management</li> <li>• Long-term damage to City's reputation</li> <li>• Citizen satisfaction survey indicates unacceptable performance.</li> <li>• Complaints elevated to Council level.</li> <li>• Results inconsistent with commitments made to citizens</li> <li>• Theft or Fraud under \$100,000.</li> </ul>	<ul style="list-style-type: none"> <li>• Uninsured loss, cost overruns or fines of &gt;\$100K to \$1M</li> <li>• Insured loss &gt;\$1M to \$10M</li> <li>• Having to delay payments to contractors/suppliers.</li> <li>• &gt;20% current demands cannot be services with existing and approved infrastructure.</li> <li>• City's actions results in lost revenue for significant number of City businesses.</li> </ul>
Impact	Services	Technology	People	Strategic	Legal/Reputational	Financial



### Appendix 1 – Risk Assessment Criteria

<b>Major (4)</b>	<ul style="list-style-type: none"> <li>• Less than 45% of service objectives achieved.</li> <li>• Unable to perform an essential service where no alternative exists.</li> </ul>	<ul style="list-style-type: none"> <li>• Unrecoverable loss or corruption of data from an important system</li> <li>• Unavailability or major performance issues with significant systems</li> <li>• Disclosure of sensitive or confidential information</li> </ul>	<ul style="list-style-type: none"> <li>• Serious injury of one or more employees</li> <li>• Legal judgment against the City in workplace matter.</li> <li>• Turnover of key employees</li> <li>• Sustained strike of services.</li> </ul>	<ul style="list-style-type: none"> <li>• Numerous actions are significantly at odds with the strategic priorities.</li> </ul>	<ul style="list-style-type: none"> <li>• Public/media outcry for change in CAO or Council</li> <li>• Public or senior officials charged or convicted</li> <li>• Legal judgment against the City in a workplace matter</li> <li>• Integrity breach resulting in decreased trust in City Council or Administration.</li> <li>• Theft or Fraud &gt;\$100,000</li> </ul>	<ul style="list-style-type: none"> <li>• Uninsured loss, cost overruns or fines of &gt;\$1M - \$10M</li> <li>• Insured loss of &gt;\$10M - \$100M</li> <li>• Unable to pay employees and contractors on a time.</li> <li>• Failure to maintain financial capacity to support current demands.</li> <li>• City's actions impair local economic conditions.</li> </ul>
<b>Extreme (5)</b>	<ul style="list-style-type: none"> <li>• Less than 30% of service objectives achieved.</li> <li>• Unable to perform several essential services where no alternatives exist.</li> </ul>	<ul style="list-style-type: none"> <li>• Unrecoverable loss or corruption of data from a critical system</li> <li>• Unavailability of critical systems</li> <li>• Major disclosure of sensitive or confidential information</li> </ul>	<ul style="list-style-type: none"> <li>• Death of an employee</li> <li>• Major legal judgment against the City in workplace matter.</li> <li>• Significant turnover of key employees with ELT</li> <li>• Sustained strike of key services</li> </ul>	<ul style="list-style-type: none"> <li>• Many actions are significantly at odds with the strategic priorities.</li> </ul>	<ul style="list-style-type: none"> <li>• Public/media outcry for change in CAO or Council</li> <li>• Senior officials criminally charged or convicted</li> <li>• Severe legal judgment against the City in a workplace matter</li> <li>• Major integrity breach resulting in complete loss of trust in City Council or Administration.</li> <li>• Theft/Fraud &gt;\$1,000,000</li> </ul>	<ul style="list-style-type: none"> <li>• Uninsured loss, cost overruns or fines &gt;\$10M</li> <li>• Insured loss &gt; \$100M</li> <li>• File for bankruptcy</li> <li>• Failure to maintain financial capacity to support current demands.</li> <li>• City's actions significantly impair local economic conditions.</li> </ul>

Likelihood	Unlikely (1)	Possible (2)	Probable (3)	Likely (4)	Very Likely (5)
	Less than 20%	>20% but < 40%	>40% but < 60%	>60% but < 80%	80% or more
	Less frequent than every 10 years	May occur in the next 2 years	Will occur this year or next year at least once	May occur regularly this year	Will occur within months may reoccur often