

Presented To:	Audit Committee
Presented:	Tuesday, Mar 02, 2021
Report Date	Saturday, Feb 13, 2021
Type:	Managers' Reports

Request for Decision

Performance Audit of Service Contract Management Processes

Resolution

THAT the City of Greater Sudbury approves the recommendations as outlined in the report entitled "Performance Audit of Service Contract Management Processes", from the Auditor General, presented at the Audit Committee meeting on March 2, 2021.

Signed By

Auditor General
Ron Foster
Auditor General
Digitally Signed Feb 13, 21

Relationship to the Strategic Plan / Health Impact Assessment

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

Report Summary

Procurement, risk management and legal staff have implemented improvements to service contract management processes over the last several years to mitigate risks. Notwithstanding these improvements, additional opportunities were identified during this audit to improve management processes for service contracts.

Financial Implications

No immediate financial implications.

Performance Audit of Service
Contract Management
Processes

February 12, 2021

Final Report



OBJECTIVES

The objective of this audit was to assess the effectiveness of service contract management processes.

BACKGROUND

Legal, procurement, finance and risk management staff provide support to user departments which administer hundreds of contracts for goods and services each year to facilitate the delivery of City programs.

METHODOLOGY & SCOPE

Audit procedures included inquiries of staff, inspections of records, reviews of processes, assessments of risks, and tests of internal controls for eight service contracts that were awarded and/or extended between 2016 and 2020. The scope of this audit excluded contracts for goods that are managed by the Purchasing Section of the Finance Division as well as construction contracts which are managed by the Engineering Services Division. It also excluded financial controls that are tested during the annual financial statement.

EXECUTIVE SUMMARY

Procurement, risk management and legal staff have implemented improvements to service contract management processes over the last several years to mitigate risks. Notwithstanding these improvements, additional opportunities were identified during this audit to improve management processes for service contracts.

AUDIT STANDARDS

We conducted this 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 about this report, please contact Ron Foster by phone at 705-674-4455 extension 4402 or via email at ron.foster@greatersudbury.ca

OBSERVATIONS & ACTION PLANS:

A. Maintenance of Insurance

Procurement staff verify that new suppliers have obtained the insurance coverage required by the City. After the contract is established, user departments are required to ensure the continued maintenance of insurance coverages in accordance with contract terms. This audit determined that some user departments were not aware of their responsibility to confirm maintenance of insurance coverage and/or lacked the expertise to confirm continued coverage. While insurance had been maintained on the contracts tested, the potential exists for the City to be exposed to liabilities from contractors with inadequate insurance coverage.

Recommendation:

Introduce processes to ensure that staff verify that contractors maintain appropriate insurance coverage.

Management Response and Action Plan:

Agreed. Purchasing will reinforce to Authorized Persons, in training and upcoming annual Business Partner meetings of their contract administration responsibilities. In addition, the 2021 Purchasing Workplan includes an update to the Purchasing Contract Administration Policy. Improvements will be made to the policy to enhance clarity of roles and responsibilities.

The 2021 Purchasing Workplan includes implementation of modules in the updated bids&tenders bidder submission software platform used by the City. We have initiated this project and by the end of 2021, the Contract Management Module will be utilized for all contracts that Purchasing coordinates. The bids&tenders Contract Management Module will provide the ability for all parties (Purchasing, the Contract Administrator and the Supplier) to view, manage and submit the various contract documents, including insurance. The system will notify the Supplier of an insurance certificate expiry, the Supplier will upload a new certificate and staff can approve/reject the certificate. In addition, Purchasing will have access to a dashboard that identifies expired contract documents for monitoring and further investigation.

In the 2022 Workplan, Purchasing will develop a formal training program for all new management hires that will encompass the Purchasing By-Law and associated policies and procedures.

B. Performance Monitoring of Contractors

Formal processes are not in place to document the performance of service contractors. While the decisions to renew/extend two of the contracts that were examined during this audit appeared sound, they were made without reference to documented records of contractor performance. Performance monitoring processes for other service contracts that we examined during this audit were also not documented consistently. As a result, service contract award decisions may not be fully informed.

Recommendation:

Introduce a formal performance monitoring system to ensure contract extension decisions are supported by contractor performance documentation.

Management Response and Action Plan:

Agreed. Immediately, Purchasing staff will incorporate messages in Business Partner meetings that reinforce expectations regarding the need for actively managing contractor performance management.

In the 2022 Workplan, Purchasing will be developing a formal Contractor Performance Management System. It will be a holistic system that starts with defining contract requirements, conducting contract risk assessments, and developing key performance indicators. There will be a process to record performance and escalate issues to ensure that penalties are appropriate and that issues are escalated to the right people within the City and the Contractor. This formal system will reinforce the current provisions in the Purchasing By-Law “Disqualification of Bidders”, to ensure that expectations are clearly defined, proper notice procedures are followed and that penalties are administered systematically to avoid legal challenges. This is not only meant to be a punitive process as satisfactory performance will also be recorded in order to document the City’s reasoning for awarding option years on multi-year contracts, to serve as references for future Bid Solicitation process and to recognize Contractors that provide excellent services. The development of a formal system will include the evaluation of the Vendor Performance Management Module in bids&tenders. The bids&tenders Vendor Performance Management Module can provide the ability for all parties (Purchasing, the Contract Administrator and the Supplier) to send, fill-out and receive associated forms, as well as tracking due dates of performance review and records retention.

C. Planning of Procurement Initiatives

The decision to go to tender for a waste collection contract in 2016 yielded only three submissions. Since bidders required significant investments in equipment, two prospective bidders declined to respond because of the tight schedule for the tender as the successful bidder was expected to start performing services only 15 days after the tender closed. While the time lines within the tender complied with applicable laws, some objectives of the Purchasing By-Law such as encouraging competition, maximizing savings for taxpayers and ensuring fairness among bidders may not have been fully achieved.

In January 2019, Purchasing staff issued a Request for Supplier Qualification (RFSQ) for the waste collection function. In February 2019, a tender was issued which closed in April 2019. Bidders were given 42 days to submit a bid and over a year to prepare for a contract with a start date of January 31, 2021. The City received three qualified bids and awarded a contract to the bidder that submitted the lowest bid for both service zones.

In November 2019, Purchasing staff issued an RFPQ for snow plowing for winter control operations. A request for tender was issued in December 2019 and closed in January 2020. The contract that was awarded in April for operations which commenced on November 15 and provided the two successful proponents with sufficient time to acquire the plows required to deliver services.

No recommendation is provided as the current planning process for service contracts is effective.

D. Continuous Improvement

Ongoing improvements have been made to service contract management processes in recent years.

Risk management provides training, sets contract standards, and reviews risk exposures for insured and non-insured risks. Strategies and suggestions to manage non-insured risks include the review and identification of exposures and indemnity clauses for approximately 200 contracts annually. Improvements introduced in recent years by procurement staff include providing notice to departments managing major service contracts at least a year in advance to their expiry to facilitate the procurement process. Legal Services staff have also updated the City's contract templates to improve contract risk mitigation processes.

Table 1 – Summary of Significant Risks

Risk	Total No. of Risks	Inherent 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	2	2	-	-	-	1	1
Operational	3	3	-	-	-	2	1
Financial	3	3	-	-	-	-	3
Legal	2	2	-	-	-	1	1
TOTAL	10	10	0	0	0	4	6

Table 2 – Significant Risks¹

Risk	Risk Description	Inherent Risk	Residual Risk*
O1/R1	Formal processes may not be in place to effectively monitor and document contractor performance.	20	14
O2/L1	Formal processes may not be in place to ensure contractors maintain required insurance coverage.	20	12
L2/F3	Effective risk mitigation processes may not be incorporated within contracts.	20	8
F2/O3	Procurement initiatives may not be planned effectively.	25	7
F1/R2	Internal controls over contractor payments may not be in place or operating effectively.	20	6

**Note that it is not cost-effective to eliminate residual risks.*

¹ Risks were ranked in accordance with the criteria in Appendix 1.

Appendix 1 – Enterprise Risk Assessment Criteria

Impact	Service Delivery	Technology	People	Strategic	Legal/Reputational	Financial
Extreme (5)	<ul style="list-style-type: none"> Less than 30% of service objectives achieved. Unable to perform several essential services where no alternatives exist. 	<ul style="list-style-type: none"> Unrecoverable loss of information from critical system. External exposure of confidential information Unavailability of critical systems or data loss or corruption. 	<ul style="list-style-type: none"> Death of an employee Major legal judgment against the City in workplace matter. Significant turnover of key employees with ELT Sustained strike of key services 	<ul style="list-style-type: none"> Many actions are significantly at odds with the strategic priorities. 	<ul style="list-style-type: none"> Public/media outcry for change in CAO or Council Senior officials criminally charged or convicted Severe legal judgment against the City in a workplace matter Major integrity breach resulting in complete loss of trust in City Council or Administration. Theft/Fraud>\$1,000,000 	<ul style="list-style-type: none"> Uninsured loss, cost overruns or fines >\$10M Insured loss >\$100M File for bankruptcy Failure to maintain financial capacity to support current demands. City action results in decrease in economic condition.
Major (4)	<ul style="list-style-type: none"> Less than 45% of service objectives achieved. Unable to perform an essential service where no alternative exists. 	<ul style="list-style-type: none"> Unrecoverable loss of information from important system. External exposure of important information Unavailability of significant systems or data loss or corruption. 	<ul style="list-style-type: none"> Serious injury of one or more employees Legal judgment against the City in workplace matter. Turnover of key employees Sustained strike of services. 	<ul style="list-style-type: none"> Numerous actions are significantly at odds with the strategic priorities. 	<ul style="list-style-type: none"> Public/media outcry for change in CAO or Council Public or senior officials charged or convicted Legal judgment against the City in a workplace matter Integrity breach resulting in decreased trust in City Council or Administration. Theft or Fraud>\$100,000 	<ul style="list-style-type: none"> Uninsured loss, cost overruns or fines of >\$1M - \$10M Insured loss of >\$10M - \$100M Unable to pay employees and contractors on a time. Failure to maintain financial capacity to support current demands. City action results in decrease in economic condition.
Moderate (3)	<ul style="list-style-type: none"> Less than 60% of service objectives achieved. Unable to perform 	<ul style="list-style-type: none"> Disruptions of significant systems or data loss or corruption 	<ul style="list-style-type: none"> Multiple employee injuries or long-term disability from one incident. Inability to retain or attract competent staff. 	<ul style="list-style-type: none"> Numerous actions are at odds with strategic priorities. 	<ul style="list-style-type: none"> Public/media outcry for removal of management Long-term damage to City's reputation Citizen satisfaction survey indicates unacceptable performance. 	<ul style="list-style-type: none"> Uninsured loss, cost overruns or fines of >\$100K to \$1M Insured loss >\$1M to \$10M Having to delay payments to contractors/suppliers. >20% current demands cannot be services with

	essential service but alternatives exist.	<ul style="list-style-type: none"> Recoverable loss from important system. 	<ul style="list-style-type: none"> Increase in stress leave, sick leave or WCB claims. Work-to-rule union disagreement or short-term strike. 		<ul style="list-style-type: none"> Complaints elevated to Council level. Results inconsistent with commitments made to citizens Theft or Fraud under \$100,000. 	<p>existing and approved infrastructure.</p> <ul style="list-style-type: none"> City action results in lost revenue for significant number of City businesses.
Minor (2)	<ul style="list-style-type: none"> Less than 75% of service objectives achieved. Unable to perform non-essential service. 	<ul style="list-style-type: none"> Disruptions of systems or data loss or corruption Disclosure of non-confidential but embarrassing information. 	<ul style="list-style-type: none"> Reportable employee injury. Loss of key staff but able to recruit competent replacements Significant increase (>10%) in number of union grievances. 	<ul style="list-style-type: none"> Instances of actions at odds with strategic priorities. 	<ul style="list-style-type: none"> Complaints elevated to the Director level. Short-term repairable damage to City's reputation Public outcry for discipline of employee. Moderate amount of negative media coverage Theft or Fraud of \$1,000 to \$10,000. 	<ul style="list-style-type: none"> Uninsured loss, cost overruns or fines of \$10K to \$100K Insured loss < \$100K - \$1M Inefficient processes City action results in reduced economic development.
Very Minor (1)	<ul style="list-style-type: none"> Less than 90% of service objectives achieved. 	<ul style="list-style-type: none"> Minor disruptions of secondary systems or data loss or corruption. 	<ul style="list-style-type: none"> Minor reportable employee injury. Increase in number of union grievances. 	<ul style="list-style-type: none"> Minor instances of actions that are at odds with strategic priorities. 	<ul style="list-style-type: none"> Small amount of negative media coverage or complaints to City. Non-lasting damage or no reputational damage Theft or Fraud under \$1,000. 	<ul style="list-style-type: none"> Uninsured loss, cost overruns or fines < \$10K Insured loss < \$100K Loss of replaceable asset.

Likeli- hood	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 a matter of months may reoccur often