

## **Request for Decision**

### **Performance Audit of Purchasing Services**

Presented To:	Audit Committee
Presented:	Tuesday, Jul 10, 2018
Report Date	Wednesday, Jun 27, 2018
Type:	Managers' Reports

#### **Resolution**

THAT the City of Greater Sudbury approves the recommendations as outlined in the report entitled "Performance Audit of Purchasing Services" from the Auditor General, presented at the Audit Committee meeting on July 10, 2018.

Signed By

**Auditor General**  
Ron Foster  
Auditor General  
*Digitally Signed Jun 27, 18*

#### **Relationship to the Strategic Plan / Health Impact Assessment**

Completing audits supports responsive, fiscally prudent, open governance.

#### **Report Summary**

Significant progress has been made to address the recommendations from our previous audit in 2014. Standing Offers have been established, and multi-year contracts have been recorded to enable purchasing initiatives to be better planned. A more cost effective procurement card program has been established and a customer service model has been adopted to improve service levels within each division.

In spite of these improvements, this audit identified a need for further revisions to purchasing processes to improve value for money. While customers are generally satisfied with the services provided by the Purchasing Section, they are concerned about the timeliness of Tenders, Requests for Proposals, and Requests for Pre-Qualifications as well as the value of these processes. Opportunities were identified to refine the City's procurement processes to improve their flexibility to allow for negotiation with vendors, more timely procurement and greater participation by bidders.

#### **Financial Implications**

No direct implications.

---

# Performance Audit of Purchasing Services

---

June 27, 2018  
FINAL REPORT

---



## **SUMMARY**

### **Objectives**

The objective of this audit was to assess the extent of regard for efficiency, effectiveness and economy within the Purchasing Services Section of the Finance, Assets and Fleet Division.

### **Scope**

The scope of the audit includes activities from January 1, 2015 to December 31, 2017.

### **Background**

The Purchasing Services Section plans, develops, and coordinates the City's procurement activities and facilitates compliance with the City's Purchasing By-law which mandates fair, open, transparent, competitive and economical purchasing. In 2017, the Section had 7 full-time equivalent staff, revenues and recoveries of \$566K, expenses of \$915K and net expenses of \$349K.

### **Report Highlights**

Significant progress has been made to address the recommendations from our previous audit in 2014. Standing Offers have been established and multi-year contracts have been recorded to enable purchasing initiatives to be better planned. A more cost effective procurement card program has been established and a customer service model has been adopted to improve service levels within each division of the City.

In spite of these improvements, this audit identified a need for further revisions to purchasing processes to improve value for money. While customers are generally satisfied with the services provided by the Purchasing Services Section, they are concerned about the timeliness of Tenders, Requests for Proposals (RFPs), and Requests for Pre-Qualifications as well as the value of these processes. As a result, we recommended a number of changes to the Purchasing Bylaw and policies to improve the efficiency, effectiveness and economy of the largest purchases which account for approximately 75% of the value of annual competitive purchases which are processed by the Purchasing Services Section.

### **Audit Standards**

We conducted our audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we adequately plan for the audit; properly supervise audit staff; obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions; and prepare audit documentation related to the planning, conducting, and reporting for each audit.

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit. For further information regarding this report, please contact Ron Foster at extension 4402 or via email at [ron.foster@greatersudbury.ca](mailto:ron.foster@greatersudbury.ca)

## OBSERVATIONS AND ACTION PLANS

### Purchasing Limits and Volumes

The City's purchasing limits provide controls over the authorization of purchases but also impose significant workloads on Purchasing staff. Benchmarking with our municipal peers such as Thunder Bay, Windsor and London identified an opportunity to improve the efficiency of purchasing transactions. Revising the limits and reducing the number of quotes required for lower dollar purchases would allow highly skilled buyers to spend more time planning and assisting operational staff with requests for tenders (RFTs) and requests for proposals (RFPs) for purchases of \$25,000 or more which accounted for approximately 75% of the value of purchases but just 10% of the volume of purchase orders processed in 2016 and 2017.

Purchase Orders by Size excluding Change Orders	2016 PO Volume	2017 PO Volume	2016 PO %	2017 PO %	2016 PO \$	2017 PO \$	2016 %	2017 %
Less than \$2,000	504	289	22.9	14.3	459,781	267,268	1.1	0.6
\$2,000 to \$9,999	1177	1225	53.5	60.3	5,622,283	5,796,813	12.8	13.9
\$10,000 to \$24,999	302	301	13.7	14.8	4,446,064	4,450,087	10.1	10.7
\$25,000 to \$49,999	137	128	6.2	6.3	4,749,322	4,642,300	10.8	11.1
\$50,000 to \$99,999	33	37	1.5	1.8	2,198,606	2,451,454	5.0	5.9
Over \$100,000	47	51	2.2	2.5	26,482,156	24,079,711	60.2	57.8
Total	2200	2031	100.0	100.0	43,958,212	41,687,633	100.0	100.0

### Recommendations

To allow staff to plan large purchases more effectively, it is recommended that the Purchasing By-law and purchasing thresholds be revised to the following levels which are similar to those in several of our municipal peers. To manage the risks associated with decentralizing purchasing, it is also recommended that purchasing staff monitor annual spending trends to ensure continued usage of standing offers for recurring purchases.

Purchasing Requirements	Present Thresholds	Suggested Thresholds
P card or purchase order	Less than \$2,000	Less than \$5,000
Minimum of 1 quote	\$2,000 to \$9,999	\$5,000 to \$24,999
Minimum of 3 quotes	\$10,000 to \$49,999	\$25,000 to \$99,999
RFPs and Tenders	\$50,000 or more	\$100,000 or more

### Management's Response & Action Plan

*Agree with the recommendation to change the current purchasing thresholds to address the large number of Purchase Orders issued by the Purchasing Coordinators. A change to the purchasing limits would align with the Canadian Free Trade Agreement and the Comprehensive Economic and Trade Agreement (CETA). Purchasing staff would have the ability to concentrate on the larger \$ value procurements. Currently, the Purchasing By-law 2014-1 is being updated to reflect trade agreement rules and future electronic bidding. To execute the suggested thresholds, the Purchasing By-law 2014-1 and the Purchasing Authority Policy would require updating to match spending authority.*

## Procurement Planning

Purchasing staff track the status of contracts and standing offers within a contract database to assist with procurement planning. Prior to the end of contracts, staff receives notifications that these contracts will be expiring. The notification period varies with the size, complexity, anticipated procurement process and length of time for the last procurement initiative. An examination of the notification periods for multi-year service contracts that were to be bid in the future indicated that insufficient time continued to be provided for planning these major purchases.

The MBCAN benchmarking data for 2016 indicates the City lags its municipal peers in the number of bids received from purchasing initiatives as well as the costs per \$1,000 of centralized purchasing. The Purchasing Section's efforts to establish Standing Offers in the last couple years have, however, improved the percentage of goods and services that are subject to central purchasing and will help the City to achieve greater economies of scale.

Key Performance Indicator	London 2014 to 2016	Thunder Bay 2014 to 2016	Windsor 2014 to 2016	Average of Peers 2014 to 2016	Study Average 2014 to 2016	Sudbury 2016 Only*
Average Number of Bids per Bid Call	3.9	3.2	5.2	4.1	4.7	3.5
Centralized Costs per \$1,000 of Purchases	\$4.39	\$6.20	\$5.84	\$5.48	\$4.99	\$6.69
Goods and Services Purchased Centrally	49.1%	59.9%	57.4%	55.5%	55.7%	61.9%

\*Prior year's data was not available

Analysis of the comments from bidders which opted to not participate in several major bidding opportunities in 2017 indicated that insufficient time was provided by the City for them to prepare their bids or to assemble the equipment required to provide the services required. Analysis of all major tenders and RFPs issued by the City in 2016 to 2017 also indicated that bidders were given insufficient time to prepare and submit their bids.

Year	# of Largest Purchases	Average Planned Size of Purchase	Average Bidding Period Provided
2016	55	\$1.4 million	21.3 days
2017	56	\$1.1 million	24.5 days

## Recommendations

Purchasing staff should extend the bidding periods available within Tenders and RFPs to support more competitive and economical purchasing. Adopting the minimum timelines within the new legislation will address this concern.

### **Management's Response and Action Plan**

*Agreed. The minimum timelines for Tenders and RFPs are prescribed within the trade agreements. CETA timelines are indicated within the agreement and when it is the CFTA, the timelines are indicated as a reasonable amount of time for bidding purposes. Purchasing will review on a case by case basis and determine the optimal allowable time for bidding purposes depending on the complexity and urgency of the requirement.*

## Requests for Proposals

In 2017, the Purchasing Services Section issued 80 Requests for Proposals (RFPs) for services with an annual value of approximately \$40 million. Analysis of the largest 9 RFPs indicated that staff had assigned a weighting of 20% to 40% to price within the evaluation process for these initiatives. Our analysis of better practices in public procurement indicates

that increasing the weight assigned to price to not less than 30% of the score in the bid evaluation process would bolster the economy received by the City.

### **Recommendation**

Price should receive not less than 30% of the weighting within the scoring criteria for RFPs to support more economical purchasing. The Purchasing By-law should be updated to reflect this minimum requirement.

### **Management's Response and Action Plan**

*Agreed. RFPs will have a minimum weighting of 30% for pricing within the scoring criteria. RFP Policies and Procedures will be updated to reflect this change. Where an Operating Department requires a lower weighting, written approval would be required from the ELT member.*

### **Customer Satisfaction Survey**

To assess the level of customer satisfaction with purchasing services, processes and tools, 36 surveys were issued randomly to system users with delegation authority level 3 (up to \$250,000) and 4 (up to \$500,000). The 24 responses received indicated that the average satisfaction level with the services provided by the Purchasing Services Section was 73 percent.

Survey participants rated the services as very good or good except for the quality of training support which was rated lower. Several respondents were very appreciative of the management's recent decision to assign specific purchasing staff to support the divisions. Survey respondents identified a need for improvements to most of the existing purchasing processes – except the standing offers which were recently established and seen to add value. Respondents also identified opportunities to improve purchasing tools. Areas for improvement included:

- Length of time required to issue RFPs, Tenders and RSPQs;
- Lack of flexibility to negotiate within the RFP process;
- Need to increase purchasing limits of directors to allow for more timely decisions; and
- Need to make greater use of prequalification process and standing offers.

### **Recommendation**

It is recommended that steps be taken to review and respond to the areas for improvement identified in the survey to improve the efficiency and effectiveness of the City's purchasing processes. When revising processes, care needs to be taken to establish efficient processes which continue to support economical and effective procurement within the City.

### **Management's Response and Action Plan**

*Agreed. Upon approval of changes to the Purchasing By-law, increased thresholds, Purchasing Authority Policy updates, and electronic bidding, Purchasing will provide training sessions where by attendance will need to be mandatory for all staff with Purchasing Authority. Staff receiving the mandatory training will benefit from the new updates and have a better understanding of how to administer their procurements with the best possible outcomes within compliance of the Purchasing By-law and Trade Agreements. Training regarding the new updates will address benefits of a pre-qualification process, existing Standing Offers and will increase the usage of these Standing Offers which are a more efficient and effective way to purchase for their respective departments. The length of time to issue RFPs, RFTs, and RSPQs should be reduced with the majority of the Requests for Quotations completed by the Divisional staff with increased thresholds. Increasing purchasing limits for directors will require a change in the Purchasing By-law and the Purchasing Authority Policy limits.*