



Audit Topic 1 – Report 1 (March, 2015)



# ACHIEVING VALUE FOR MONEY IN OPERATIONAL PROCUREMENT

**Corporation of Delta**

**A Performance Audit carried out by the Auditor General  
for Local Government of British Columbia**



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OPERATIONAL PROCUREMENT  
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## MESSAGE FROM THE AUDITOR GENERAL FOR LOCAL GOVERNMENT

We noted that the Corporation has implemented a number of innovative and good practices to strategically manage its transactions and its overall approach to procurement.



**1.1.1** I am pleased to present this performance audit report, covering one of six audits undertaken by the office of the Auditor General for Local Government of British Columbia beginning in 2013-14 on the topic of “Achieving Value for Money in Operational Procurement.”

**1.1.2** This office was established to strengthen British Columbians’ confidence in their local governments’ stewardship of public assets and the achievement of value for money in their operations. The main way we do this is by conducting performance audits of local government operations.

**1.1.3** Our performance audits are independent, unbiased assessments of local government operations and initiatives, carried out in accordance with professional standards. They aim to assess whether the area being examined has been managed with due regard to economy, efficiency and effectiveness.

**1.1.4** This report outlines our findings in assessing the Corporation of Delta’s management of the procurement of goods and services to support day-to-day operations, known as operational procurement.

**1.1.5** Overall, we found that Delta has set up systems and processes enabling it to manage its operational procurement with due regard for value for money. We noted that the Corporation has implemented a number of innovative and good practices to strategically manage its transactions and its overall approach to procurement. We identified some areas where policies and practices could be enhanced to achieve even greater benefits for Delta’s taxpayers.

**1.1.6** In addition to this report and five others, one on each of the local governments audited on this topic, we also will be releasing an AGLG Perspectives booklet dealing with some key operational procurement matters for local governments to consider and tools of relevance to a wide range of local governments. In particular, this booklet on operational procurement focusses on key performance indicators that could be of use to local governments in measuring their effectiveness in carrying out operational procurement. It will also provide suggestions on evaluating vendor performance.

## MESSAGE FROM THE AUDITOR GENERAL FOR LOCAL GOVERNMENT

**1.1.7** I'm pleased with the Corporation of Delta's positive response to the audit and its commitment to acting on our recommendations. The local government is a well-developed organization that we believe could enhance its already strong approach to operational procurement by implementing our recommendations. In our view, doing so will enable Delta to take its operational procurement to the next level.

**1.1.8** My hope is that these reports will assist Delta and local governments across British Columbia in furthering their efforts to deliver value for the tax dollars they spend.

A handwritten signature in black ink, appearing to read 'Basia Ruta', with a large, stylized initial 'B'.

**Basia Ruta, CPA, CA**  
Auditor General for Local Government



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## EXECUTIVE SUMMARY

We observed a high level of commitment among Corporation of Delta staff to achieving best value through competitive procurement.

**1.1.9** We undertook performance audits on operational procurement because local governments spend significant taxpayer funds for purchased goods and services in support of their daily operations. Effective management of operational procurement provides local governments with opportunities to contain costs and/or enhance program delivery.

### What We Examined

**1.1.10** Our objective was to determine whether the Corporation of Delta was managing operational procurement strategically and with due regard for value-for-money during the audit period of 2010 through 2012. We examined the Corporation's level of spending through operational procurement, including a review of procurement data and a sample of contractual arrangements. We also reviewed supporting policies and procedures, the extent of local government oversight and governance and the level of transparency in public reporting.

### What We Found

#### A Strong Approach

**1.1.11** We observed a high level of commitment among Corporation of Delta staff to achieving best value through competitive procurement. We also found examples of tangible steps the Corporation undertook to follow through on this commitment.

**1.1.12** Our review of Delta's operational procurement practices identified many strengths, especially in the management of individual transactions and the containment of costs. We found good examples of initiatives aimed at 'going the extra mile' to generate savings.

**1.1.13** The Corporation's procurement framework was built around oversight by Council, a set of policies and procedures and a centralized purchasing division within the finance department to facilitate procurement across the Corporation. This framework enabled Delta to efficiently and effectively go to market to procure goods and services, helping the Corporation achieve generally good procurement decisions, with competitive procurement conducted prudently, using clear vendor evaluation criteria.

**1.1.14** We found several examples of Delta's efforts to generate cost savings. Our review of 24 operational procurement transactions also revealed examples of searches for best value. Additionally, we reviewed 12 of the Corporation's higher value contracts and found that each was appropriately tendered and awarded.

## EXECUTIVE SUMMARY

### Opportunities to Enhance & Update Policies

**1.1.15** Our examination revealed that Delta had fairly robust written policies and procedures for managing its procurement activities. However, the Corporation's procurement policy had not been updated for a number of years and had some gaps. These included several areas where Delta undertook good practices that helped ensure favourable outcomes in operational procurement. We note, however, that some of these practices had not yet been formalized in written policy. We believe Delta should enshrine these good practices in policy to ensure their consistent interpretation and application.

**1.1.16** We have identified some specific areas that would benefit from new or updated policy, for example to deal with direct contract awards, conflict of interest, unsolicited proposals, vendor complaints and vendor performance. Delta staff have told us they are currently updating their procurement policies and we encourage the Corporation to also consider the areas we have highlighted.

### Need for Improved Information, Analysis, Monitoring & Reporting

**1.1.17** We found that Delta could do more to capture and consistently use data relating to its operational procurement. One area that would particularly benefit would be the development and use of measurable objectives and key performance indicators for its operational procurement function. Regular reporting on such

indicators would provide Council and taxpayers with a clearer sense of the purchasing division's overall progress over time.

## Conclusion

**1.1.18** Overall, we found that Delta has set up systems and processes enabling it to manage its operational procurement with due regard for value for money. We noted that the Corporation has implemented a number of innovative and good practices to strategically manage its transactions and its overall approach to procurement. We identified some areas where policies and practices could be enhanced to achieve even greater benefits for Delta's taxpayers.

**1.1.19** We believe that, if Delta takes additional steps as noted in our recommendations, it will enhance an already strong approach to operational procurement and reinforce its accountability reporting to Council and its citizens.

# EXECUTIVE SUMMARY

**EXHIBIT 1:**  
Summary of Recommendations

ISSUES	RECOMMENDATIONS
<p><b>1. Procurement Policies</b></p>	<p>The Corporation of Delta should review and update its procurement policies and procedures to formalize changes and improvements in practice that have already occurred. These changes should also include any known gaps in policies. These should include:</p> <ul style="list-style-type: none"> <li>• provisions relating to conflict of interest such as a requirement for staff involved in procurement to declare potential conflicts of interest annually, the establishment and maintenance of a list of known potential conflicts of staff and Council members and a requirement for suppliers to sign a conflict of interest declaration;</li> <li>• guidance on managing and controlling direct contract awards;</li> <li>• guidance on the level and nature of documentation required in support of procurement decisions and summary level reporting to senior management and Council in cases where there is an exception to following the usual procedure;</li> <li>• provisions covering unsolicited proposals, contract dispute resolution, the use of legal services in reviewing contracts and a process for the timely and fair resolution of disputes with suppliers;</li> <li>• policy on debriefing unsuccessful bidders; and,</li> <li>• policy on evaluation of vendor performance.</li> </ul>
<p><b>2. Data Collection, Analysis, Monitoring and Reporting</b></p>	<p>The Corporation of Delta should further strengthen its strategic management of operational procurement by improving data collection, analysis, monitoring and reporting. This should include:</p> <ul style="list-style-type: none"> <li>• revising purchasing division strategic objectives to ensure they are specific, measurable, attainable, relevant and time-bound;</li> <li>• identifying, tracking and reporting on key performance indicators for the purchasing division to help evaluate the success of purchasing activities; and,</li> <li>• making wider use of data already captured in information systems (or capturing additional procurement-related information) to carry out analysis in support of purchasing decision-making and reporting.</li> </ul>

## INTRODUCTION

We identified this topic as a priority because local governments spend significant taxpayer funds for purchased goods and services in support of their daily operations.

**1.1.20** This report presents the results of a performance audit conducted by the Auditor General for Local Government of British Columbia (AGLG) under the authority of the *Auditor General for Local Government Act*.

**1.1.21** We conducted this audit under one of six audit themes outlined in our 2013/14 – 2015/16 Service Plan: “Fiscal and Sustainability Planning, Capacity and Internal Operations.” Following our identification of audit themes, we selected specific topics for audits to be launched in 2013/14, including the topic of this performance audit: “Achieving Value for Money in Operational Procurement.”

**1.1.22** We identified this topic as a priority because local governments spend significant taxpayer funds for purchased goods and services in support of their daily operations. Effective management of operational procurement provides local governments with opportunities to contain costs and/or enhance program delivery. In our performance audit planning, we found a high level of interest among local governments in making sure purchasing practices are resulting in value for money and enhancing program delivery.

**Operational procurement** is the process of purchasing the goods and services a local government needs in support of its ongoing daily operations and programs.

Operational procurement may include items such as professional services, commodities, office supplies and other goods and services necessary to local government activities such as economic development, marketing and the provision of social services.

It does not include operating expenses that are not procured, such as staffing costs, or expenditures on agencies that do their own procurement, such as police services and regional libraries. It also does not include “capital purchases,” that is purchases to acquire or better its physical assets.

For the purposes of this audit, we have also excluded non-discretionary purchases available from only a single supplier such as water and electrical utilities.

Operational procurement is a process that begins with an initial concept of a requirement and ends with the completion of all post contractual actions.

## INTRODUCTION

**1.1.23** We selected Delta and five other local governments to be included in this set of audits through the same rigorous performance audit planning process as our audit topics. We attempted to include a cross-section of local governments across the province, in terms of size, location, remoteness and other considerations.

**1.1.24** The others we audited on this topic were Comox Valley Regional District, Fraser-Fort George Regional District, the City of Revelstoke, the City of Vernon and the District of West Vancouver.

**1.1.25** Operational procurement is pervasive in local governments, involving a large number of transactions for a diverse range of goods and services. As this is an area where we anticipate strategic and effective procurement practices may result in cost savings and/or more effective program delivery compared to what would be achieved through less effective procurement practices, we expect to conduct more audits in this area in future years.

# INTRODUCTION

## Operational Procurement

**1.1.26** All local governments carry out operational procurement, much of it taking place on a day-to-day basis. While the size of individual transactions can vary widely, the total amount local governments spend through operational procurement is significant.

**1.1.27** Operational procurement can be challenging for local governments of all sizes to manage strategically because of its unique characteristics:

- it is pervasive throughout the organization;
- it can involve widely varying types of goods and services;
- it often involves a relatively high volume of transactions;
- for many local governments, it involves a relatively large number of suppliers;
- individual transactions may vary widely in price;
- it is often carried out by a relatively large number of people in the organization;
- local government financial systems are not always set up to capture procurement transactions easily and holistically; and,
- procurement information and documentation in support tends to be dispersed and fragmented across the organization.

**1.1.28** These characteristics may make it difficult for a local government to quantify its operational procurement and easy for it to underestimate the significance of operational procurement and the potential for generating savings or enhancing service delivery. As a result, some local governments may approach operational procurement as a series of individual transactions rather than as an overall process running the breadth of the organization.

**1.1.29** As operational procurement is sometimes monitored only informally in the course of overseeing operating budgets, some local governments may support the function mainly through ad hoc initiatives rather than a more effective, systematic, strategic approach.

**1.1.30** In the face of these challenges, some local governments focus on good management of individual operational procurement transactions. This may involve mandating the use of competitive procurement tools for even small dollar value transactions, motivated by a belief that competitive procurement maximizes value for money.

**1.1.31** These local governments tend to measure the success of their procurement activities mainly by looking at whether contracts were let competitively and the extent to which departments stayed within their budgets, particularly where operating budgets have been reduced over time.

# INTRODUCTION

**1.1.32** This type of management can be supported by strong policies and procedures guiding procurement, which – if compliance is effectively monitored and enforced – can help ensure consistency in the use of good practices.

**1.1.33** Some local governments enhance their procurement practices by establishing a central procurement function mandated to drive efforts to generate best value in procurement throughout the organization.

**1.1.34** The most advanced local governments use these same tools while basing their operational procurement activities on a foundation of strategic management (see the definition in the Strategic Approach box). These local governments set clear objectives for their procurement function and use meaningful performance measures to track success. They gather data on costs and analyze it with a clear focus on continually pursuing best value.

**1.1.35** Local governments that manage their operational procurement strategically know that modest savings on individual transactions can add up to very significant overall savings when they are applied rigorously to large numbers of transactions throughout the organization. They gather and analyze the information they need to distinguish between measures likely to generate significant net savings and those where implementation costs are likely to be greater than any savings.

When we talk about a **Strategic approach** to operational procurement, we mean a focus on operational procurement as a key activity of a local government.

A local government that manages operational procurement strategically establishes measurable objectives, identifies strategies to attain them and develops meaningful performance indicators to measure its success.

Such a local government monitors how procurement is carried out and its outcomes. It analyses the resulting information and uses it to report to management, the Council/Board and ultimately to the public.

Ultimately, strategic management of operational procurement is all about better information for decision-making and ensuring best value for tax dollars.

## INTRODUCTION

We would expect a local government to have in place operational procurement systems and practices scaled to its size and resources.

### Our Expectations

**1.1.36** When we assess a local government's operational procurement practices, we recognize that local governments have significantly varying experience, knowledge and resources to carry out this work. For a smaller local government, we would expect them to at least know their most significant operational procurement expenditures and consistently look for best value in their acquisition.

**1.1.37** We would expect a local government to have in place operational procurement systems and practices scaled to its size and resources. Such systems and practices include:

- A well-defined approach to operational procurement, with clearly assigned roles and responsibilities to carry it out.
- Strong policies and procedures – periodically reviewed and updated as necessary – to guide procurement activities.
- Identification of the local government's most significant areas of expenditure through operational procurement, with clear strategies to achieve best value in these areas.
- The collection and retention of cost information necessary to calculate potential savings through the use of various procurement tools.
- A good understanding of key procurement risks and how they are identified, managed and monitored.
- Monitoring of performance and regular reporting to the Council/Board and the public on the local government's operational procurement activities.

# INTRODUCTION

## What We Examined

**1.1.38** The overall objective of this performance audit was to determine whether the Corporation of Delta was managing operational procurement strategically and with due regard for value-for-money.

**1.1.39** Our findings are based on our review of the Corporation's operational procurement systems, practices and policies, including the functioning of Delta's central purchasing division. We undertook a review of procurement data and supporting documentation and we interviewed staff.

**1.1.40** In addition, we selected 24 operational procurement transactions completed during the 2010 through 2012 period for detailed review. These transactions were selected to gain an understanding of the types of transactions Delta undertook and how it complied with established policies and procedures.

**1.1.41** We also reviewed 12 of the Corporation's significant operational procurement contracts – ranging in value from \$88,000 to over \$3.0 million and covering a variety of goods and services – to determine whether Delta used an appropriate method of competition and obtained the required approvals prior to proceeding with each procurement.

**1.1.42** The audit also assessed whether Delta had put in place essential internal controls over procurement and whether these were respected. We examined the tools Delta used to ensure cost-effective procurement and its reporting of results, including achieving best value (see definition in the Best Value box) in furthering the Corporation's strategic policy objectives.

**1.1.43** Our audit work primarily covered the procurement process up to the point of awarding contracts. We did not assess contract administration following contract award.

**1.1.44** We provide details about the audit objective, scope, approach and criteria in the About the Audit section, at the end of this report.

When we talk about **Best value**, we mean a balance between low cost and the quality or effectiveness of what a local government purchases.

It is the responsibility of each local government to define quality and effectiveness, as this can vary depending on the local government's priorities.

The concept of best value may include considerations such as social or environmental values as well as narrower, more traditional, measures of quality and effectiveness.

## CONTEXT

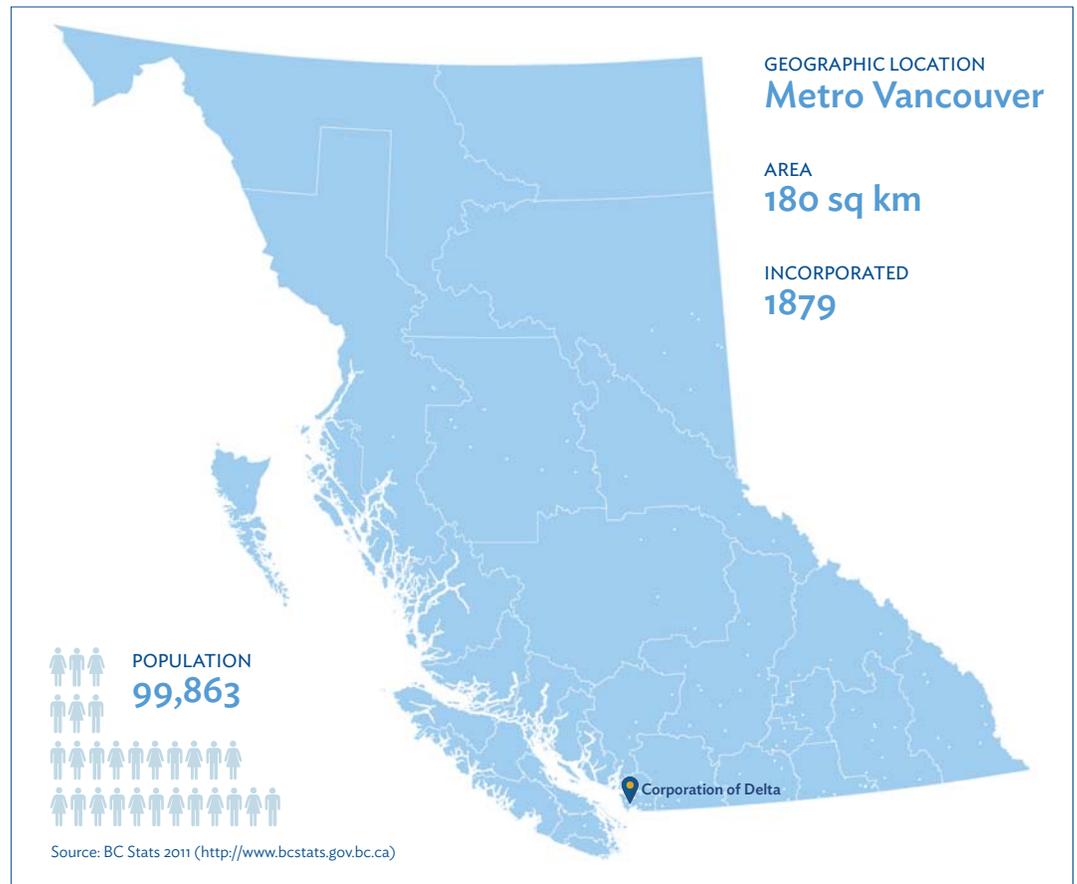
Delta’s operational procurement accounted for significant expenditures through transactions of widely varying dollar value.

### Corporation of Delta

**1.1.45** Delta is a suburban municipality located to the south of Vancouver in the Lower Mainland. Covering about 180 square kilometres, it is bordered by the Fraser River on the north, the U.S. border and Boundary Bay on the south, the City of Surrey on the east and the Strait of Georgia on the west.

**1.1.46** With a population of 99,863 as of 2011, Delta makes up about four per cent of the Metro Vancouver population. Delta consists of three communities – Ladner, Tsawwassen and North Delta – and has a long history as an agricultural centre. Other major industries include transportation, fishing, manufacturing, construction, communications and tourism.

**EXHIBIT 2:**  
Corporation of Delta Visual Facts



# CONTEXT

1.1.47 Exhibit 3 shows that the Corporation of Delta’s operating fund revenues increased over the 2010 through 2012 period by nine per cent. According to the Corporation, this was mainly due to increases in “Taxation and Grants in Lieu” and “Sales and Services” revenue amounts. The Corporation’s operating fund expenditures increased by seven per cent over the same period, mainly due to increased expenses in “Protective Services” and “Water and Sewer Services.”

**EXHIBIT 3:**  
 Corporation of Delta  
 Consolidated Statement  
 of Change in Operating  
 Fund, 2010-2012  
 (\$millions, unaudited)

	2010	2011	2012	PERCENTAGE CHANGE 2010-2012
Revenue operating fund	\$174.7	\$182.3	\$191.0	+9%
Expenditures operating fund	\$149.6	\$153.0	\$159.3	+7%

Sources: Corporation of Delta Consolidated Statement of Change in Operating Fund Balances (unaudited), 2010-2012, supplied by Delta

## CONTEXT

Operational procurement spending by Delta was relatively consistent, averaging 12 per cent of the Corporation’s total expenditures.

### Delta’s Operational Procurement

**1.1.48** Delta’s operational procurement accounted for significant expenditures during the audit period, through transactions of widely varying dollar value. Exhibit 4 shows the Corporation’s operational procurement expenditures for 2010 through 2012.

**1.1.49** As Exhibit 4 indicates, operational procurement spending by Delta was relatively consistent over the period covered by the audit, averaging \$21 million per year. This amounted to 12 per cent of the Corporation’s total expenditures, which is significant by any measure.

**EXHIBIT 4:**  
Corporation of Delta  
Operational Procurement  
Compared to Total  
Expenditures, 2010-2012  
(\$ millions)

	2010	2011	2012	%
Materials and supplies	\$7.0	\$6.9	\$7.3	4%
Repairs and maintenance	\$3.9	\$3.6	\$4.0	3%
Services	\$2.8	\$2.6	\$3.0	7%
Lease and rentals	\$1.2	\$1.0	\$1.1	(8%)
Utilities	\$1.3	\$1.3	\$1.2	(8%)
Garbage and recycling	\$4.4	\$4.3	\$4.7	7%
Other	\$0.8	\$0.9	\$1.0	25%
<b>TOTAL OPERATIONAL PROCUREMENT EXPENDITURES AS PER UNAUDITED SPEND ANALYSIS</b>	<b>\$21.4</b>	<b>\$20.6</b>	<b>\$22.3</b>	<b>4%</b>
<b>TOTAL EXPENDITURES AS PER AUDITED FINANCIAL STATEMENTS</b>	<b>\$171.9</b>	<b>\$174.1</b>	<b>\$178.9</b>	
<b>OPERATIONAL PROCUREMENT AS % OF TOTAL EXPENDITURES</b>	<b>12%</b>	<b>12%</b>	<b>12%</b>	

Source: Corporation of Delta Audited Financial Statements 2010-2012 and unaudited operational procurement spend analysis prepared by Delta. The spend analysis included procurement that is discretionary and does not include agencies that do their own procurement such as policing or funded external agencies such as libraries.

## CONTEXT

**1.1.50** Delta's operational procurement is carried out through thousands of transactions each year. The diverse nature of a local government's operations and procurement requires devoting resources to processing a relatively large number of invoices. The Corporation paid about 32,000 invoices per year through the audit period, including both operational and capital procurement.

**1.1.51** Delta staff told us that they tried to consolidate certain vendors' invoices and implemented workflow changes to reduce the administrative impact where possible and when they considered this to be beneficial.

**1.1.52** The Corporation told us that reducing the volume of invoices from certain vendors was not always possible, as Delta was constrained by internal and external realities such as multiple work orders, multiple worksites, vendors that do not accept procurement card payment and the limitations of vendors' information technology systems, such as vendors that are not capable of preparing summary invoices in a format required by Delta.

**1.1.53** Delta established a centralised purchasing system with a purchasing division as its focal point to provide a high level of control, achieve efficiencies and value for money through the procurement process. The division used various mechanisms to manage competitions:

- **request for qualifications** to ensure that only qualified bidders take part in procurement competitions;
- **request for proposals** to evaluate multiple proposals against a range of criteria, including price;
- **request for quotations** for straightforward or routine purchases, usually posted on BC Bid;
- **invitation to tender** to select a supplier in price-based competitions such as construction projects; and,
- participation in **group buys** using competitive procurement, such as the Vancouver Regional Cooperative Purchasing Group.

# FINDINGS

## A Commitment to Competitive Procurement



Overall, we found that Delta has set up systems and processes enabling it to manage its operational procurement with due regard for value for money.

**1.1.54** Overall, we found that Delta has set up systems and processes enabling it to manage its operational procurement with due regard for value for money. We noted that the Corporation has implemented a number of innovative and good practices to strategically manage its transactions and its overall approach to procurement. We identified some areas where policies and practices could be enhanced to achieve even greater benefits for Delta’s taxpayers.

**1.1.56** Delta’s procurement framework consisted primarily of policies covering purchasing, procurement card use and ethical behaviour, a purchasing procedures manual, coordination by the Corporation’s purchasing division and oversight by the finance department and Council.

**1.1.57** Procurement was an integral part of the mandate of the City’s finance department and the purchasing manager reported directly to the manager of financial services. Finance department oversight focused on approving methods of procurement selected by procurement staff, plus review and approval of more complex contracts. The department also had a responsibility to ensure that purchasing was conducted in compliance with all relevant laws and trade agreements.

## A Commitment to Competitive Procurement

**1.1.55** We observed a high level of commitment among Delta staff and Council to achieving best value through competitive procurement. We also found examples of tangible steps the Corporation undertook to follow through on this commitment.

# FINDINGS

## A Commitment to Competitive Procurement



The Corporation demonstrated its belief that fair, open and transparent procurement processes achieve value for money.

### High Level of Council Involvement

**1.1.58** Council discussed and approved the Corporation's overall priorities and delegated day-to-day management of operations to staff. The Corporation demonstrated its belief that fair, open and transparent procurement processes achieve value for money through a policy requiring general operational purchases above \$2,500 to be competed for, subject to certain exceptions, and expenditures of greater than \$50,000 to be approved by Council. Some awards for less than \$50,000 were also subject to Council discussion and decision due to the nature of the project.

**1.1.59** The sample of reports we reviewed that staff presented to Council in support of procurement recommendations included information on:

- Goods and services required and posted on BC Bid.
- Responses received from vendors, including the bid price.
- Recommendation to approve a particular vendor and reasons why.
- Recommendation on the duration of the contract.
- Whether the procurement was covered by the City's budget.

# FINDINGS

## A Commitment to Competitive Procurement



Delta policies require operational purchases above \$2,500 to be competed for and expenditures of greater than \$50,000 to be approved by Council.

**1.1.60** Delta informed us that to ensure consistency and transparency, all Council reports are signed off by the chief administrative officer, the initiating department and all concurring departments. These reports are readily available online or at Municipal Hall for public review. The reports we reviewed were consistent with this approach.

**1.1.61** Exhibit 5 shows Delta’s competitive requirements for each type of expenditure.

**EXHIBIT 5:**  
Corporation of Delta  
Competitive Procurement  
Requirements

AREAS	PURCHASES TO \$2,500	PURCHASES TO \$25,000	PURCHASES TO \$50,000	PURCHASES OVER \$50,000
General operational, public works, construction	Discretionary	Competitive Quotation/ Proposal	Competitive Quotation/ Proposal/Tender	Competitive Proposal/Tender
Consulting services; advertising; and partnerships agreements	Discretionary	Negotiation or Competition	Negotiation or Competition	Negotiation
Services agreements; rental and lease agreements	Discretionary	Proposal and/ or Negotiation	Proposal and/ or Negotiation	Proposal and/ or Negotiation
Land and building purchases	Discretionary	Negotiation	Negotiation	Negotiation
Recurring or non-competitive expenditures	Discretionary	Discretionary	Discretionary	Discretionary

Source: Corporation of Delta purchasing policy

# FINDINGS

## A Commitment to Competitive Procurement



1.1.62 Corporation staff told us that, in order to maintain relatively stringent financial controls, Delta was willing to devote increased administrative time by staff and meeting time by Council to deal with procurement.

1.1.63 The Corporation’s dollar value limits for purchasing approval – indicated in Exhibit 6 – were relatively low. We noted that Council was given the opportunity to review procurement issues through the placement of transactions valued at \$50,000 and higher on the Council meeting agenda

**EXHIBIT 6:**  
Corporation Of Delta  
Acquisition Authority

AREAS OF EXPENDITURE	PURCHASES UP TO \$2,500	PURCHASES ABOVE \$2,500 UP TO \$25,000	PURCHASES ABOVE \$25,000 UP TO \$50,000	PURCHASES OVER \$50,000
General Operational, Public Works, Construction	Authorized staff	Manager/Delegate	Director/Delegate	Mayor and Council
Consulting Services; Advertising; and Partnerships Agreements	Authorized staff	Manager/Delegate	Director/Delegate	Mayor and Council
Services Agreements; Rental and Lease Agreements	Manager/Delegate	Manager/Delegate	Director/Delegate	Mayor and Council
Land and Building Purchases	Director/Delegate and Lands Solicitor	Manager/Delegate and Lands Manager	Director/Delegate and Lands Manager	Mayor and Council
Recurring or Non-Competitive Expenditures	Authorized staff	Manager or Delegate	Director or Delegate	Director or Delegate

Source: Corporation of Delta Purchasing Policy

# FINDINGS

## A Commitment to Competitive Procurement



We found that the Corporation emphasized the importance of departments remaining within their allotted budgets and had a strong focus on managing individual transactions well.

### Focus on Managing Budgets and Transactions

**1.1.64** We found that the Corporation emphasized the importance of departments remaining within their allotted budgets and had a strong focus on managing individual transactions well. We found less progress in the setting of measurable objectives for the procurement function, the establishment of meaningful performance measures and analysis.

**1.1.65** Our review of the Corporation's annual reports noted that, while Delta's purchasing division had objectives and measures, its objectives were very high level and we noted that the measures were limited to determining compliance and counting activity throughput.

**1.1.66** For example, one of the two objectives stated in the Annual Report 2012 is to have "a contracting process consistent with corporate policy that provides maximum value for budget funds." This objective provided no indication of what would be an appropriate measure of success and what would constitute maximum value. As a result, it is not possible to quantify the extent to which this objective has been met.

# FINDINGS

## A Commitment to Competitive Procurement



### Purchasing Division

**1.1.67** As mentioned previously, the Corporation had a centralized purchasing division within its finance department, which facilitated operational and capital procurement. Delta’s purchasing policy said: “The purchasing staff is responsible for conducting or facilitating the procurement for all Corporation goods, services and contracts.”

**1.1.68** The division included experienced procurement staff, including a manager, two purchasing supervisors, two senior buyers, three storekeepers/buyers and a purchasing clerk. Staffing costs for the division were \$899,500 in 2012.

**1.1.69** All departments used the purchasing department for procurement transactions over \$2,500 and we noted that, across the Corporation, there were nearly 200 staff positions with the authority to approve purchases up to specified dollar limits.

**1.1.70** The purchasing division was responsible, in conjunction with other departments, for the preparation and issuance of requests for proposals and tendering documents, uploads of competitions to the BC Bid website, evaluation of responses and related activities. The office also maintained document templates for procurement, which it made available to departments as required.

**1.1.71** Having a focal point for procurement enabled Delta to efficiently and effectively go to market to procure goods and services. Specialized and skilled procurement staff assisted departments with purchasing, promoting consistent compliance with purchasing policies. Our file reviews indicate that this structure helped Delta achieve generally good procurement decisions, with competitive procurement conducted prudently, using clear evaluation criteria.

# FINDINGS

## A Commitment to Competitive Procurement



While the Corporation did not have a formalized continuous improvement process for its procurement function, we note that, on an ad hoc basis, Delta tried new cost saving initiatives and approaches.

### Range of Procurement Tools and Practices

**1.1.72** The Corporation used several methods of ensuring effective and efficient purchasing, including stand-alone contracts, standing orders, collaborative purchases, partnership agreements and consolidation of contracts. Delta’s purchasing division played an active role in procurement across the organization, with purchasing staff overseeing and managing bid evaluations to ensure consistency and fairness, while departmental project managers assessed bids for the extent to which they met the Corporation’s needs.

**1.1.73** Delta established criteria for evaluating responses to requests for proposals, which included price comparisons. The Corporation reviewed and customized these criteria as required, depending on what was being procured and the expectations of the department receiving the goods or services.

**1.1.74** We observed that Delta posted Council-approved contract awards on its website, thereby making this information freely available for public scrutiny. Staff told us that information on other contracts, while not posted to the Corporation’s website, was openly provided to unsuccessful bidders and to others upon request.

**1.1.75** Delta staff told us that department heads reviewed contracts prior to execution. Once contracts were entered into, project managers were responsible for certifying that goods or services had been received in accordance with the terms of the contract.

**1.1.76** While the Corporation did not have a formalized continuous improvement process for its procurement function, we note that, on an ad hoc basis, Delta tried new cost saving initiatives and approaches such as in the illustrative case in the box “Purchasing Natural Gas.” In addition, Delta informally shared good practices internally among departments and externally with other local governments.

# FINDINGS

## A Commitment to Competitive Procurement



**1.1.77** Delta was a member of the Vancouver Regional Cooperative Purchasing Group, which purchased a variety of commodity items for its members. Staff told us that, by participating in such groups, Delta sought to take advantage of better pricing through economies of scale, as well as opportunities to share knowledge and resources. We noted that, on a few occasions, the Corporation, as allowed by the membership rules of the group, conducted its own competitive processes for items also available through the purchasing group, in an effort to achieve even better value for taxpayers.

**1.1.78** For example, Delta chose to tender the purchase of office supplies instead of buying through the purchasing group, as the Corporation’s staff believed doing so would result in savings. Staff estimated savings from this initiative would be approximately \$50,000 per year. Staff told us that, following the audit period, they carried out a full business analysis of this contract and determined that contract terms had been adhered to and the contract had met the Corporation’s expectations.

# FINDINGS

## A Commitment to Competitive Procurement



In 2012 , among all British Columbia municipalities, the Corporation posted the second largest number of procurement opportunities on BC Bid.

### Extensive Use of BC Bid

**1.1.79** Delta advertised procurement opportunities primarily on the BC Bid web site in order to reach the maximum number of suppliers and ensure fair and open procurement consistent with trade agreements. Corporation staff told us that they determined on a case-by-case basis whether to advertise particular procurements on BC Bid.

**1.1.80** In 2012, among all British Columbia municipalities, the Corporation posted the second largest number of procurement opportunities on BC Bid, trailing only the City of Vancouver.

**1.1.81** BC Bid did not charge Delta for posting opportunities and suppliers were not charged for electronically downloading tender documents. Between 2010 and 2012, the Corporation increased its use of BC Bid from 96 advertisements in 2010 to 110 in 2011 and 170 in 2012, representing a 77 per cent increase over the three year period.

#### ILLUSTRATIVE CASE: PURCHASING NATURAL GAS

Delta frequently used competitive processes to obtain best pricing. Staff told us the Corporation’s willingness to accept some manageable risk on price could result in lower costs.

Between 2010 and 2012, the Corporation spent \$790,000, \$773,000 and \$683,000 per year on natural gas. This followed Delta’s decision in 2008 to use the services of an independent energy broker in an effort to achieve better pricing than what it could achieve through a risk-averse long-term fixed price contract.

Delta told us that, prior to making this change, staff undertook a risk analysis of this arrangement and reported on this to Council. To manage the price risk, Delta hired an independent broker to advise on natural gas purchases. The Corporation told us that the broker consolidated bulk buying for Delta with other institutional clients as well as local greenhouses, which are significant natural gas consumers. This represented a shift in how Delta purchased natural gas and positioned the Corporation to proactively take advantage of different supply arrangements in order to minimize the impact of price volatility.

Following the audit period (in November 2013), an independent energy consultant issued a report reviewing the Corporation’s natural gas costs over the period 2008-2013. This review reported that Delta achieved net savings of \$411,000 over the six year period compared to the amount it would have paid for gas under the Corporation’s previous method of procurement.

Because both the risk analysis and the later review were performed outside the audit period, we did not verify their validity.

While we offer no opinion on the merits of the particular procurement arrangement, this is a good example of how local governments can use the services of specialists to assess and manage risk.

# FINDINGS

## A Commitment to Competitive Procurement



### Procurement and Payment Cards

**1.1.82** Delta used procurement and payment cards, known as ‘P-cards,’ for small purchases, with individual transaction limits ranging by staff position from \$500 to \$5,000 depending on the purchasing needs of the position. This program was a joint initiative of municipal governments, school districts and post-secondary institutions. We found that there were over 150 P-card holders in Delta, amounting to about 11 per cent of all staff. The Corporation processed 6,584 P-card transactions in 2012, worth \$2.2 million. This was similar to the number of P-card transactions in 2010 and 2011.

**1.1.83** In 2006, the Corporation issued a comprehensive policy dealing with all aspects of P-card issuance, use, control and reporting. The policy established individual accountabilities and responsibility for the use of the card. P-cards cannot be used for certain categories of purchases. Delta’s policy required cardholders to keep receipts and prepare transaction reconciliations, which were approved by the cardholder’s manager.

**1.1.84** The finance department was responsible for review of P-cards statements for reasonableness, correct authorization and compliance with policies and procedures. The purchasing division was responsible for regular reviews of P-card spending, including review for non-compliance and non-routine transactions. Also, on an annual basis the purchasing division performed an analysis of P-card spending to identify further opportunities for savings.

**1.1.85** According to Delta, the Corporation used P-cards in place of purchase orders and payment by cheque for small purchases, which streamlined procurement. In the case of ongoing purchases from vendors where the Corporation had the option to use P-cards for payment, Delta made the switch to improve efficiency and receive a small rebate from the bank offering the P-card program. Delta received \$16,000 in rebate revenue in 2010, \$13,600 in 2011 and \$20,005 in 2012.

# FINDINGS

## A Commitment to Competitive Procurement



### Ethical Requirements

**1.1.86** The Corporation had a code of ethics to guide staff on declaration of interests, confidentiality and related matters. These requirements were embedded in Delta's purchasing policy, purchasing procedures manual, request for proposals purchasing template and a standard memo to evaluation committees.

**1.1.87** Council members were required to sign an annual declaration on Delta's code of ethics. This included sections 100-108 of the Community Charter, which deal with conflict of interest. The Corporation's new councillor orientation binder included discussion of conflict of interest and disclosure requirements. We note, however, that Delta policy only required members of staff to acknowledge in writing – on a one-time basis – their receipt of Delta's employee handbook, which contained conflict of interest disclosure requirements. Staff were not required to make an annual declaration.

### Cost Savings Initiatives

**1.1.88** We found examples of Delta's efforts to generate cost savings, such as when the Corporation moved in 2012 from purchasing bulk asphalt from a variety of suppliers to a contract with a single supplier. The Corporation made this change through a competitive invitation to quote advertised on BC Bid. The resulting contract provided for a price based on the oil price index.

**1.1.89** The Corporation analyzed potential savings before making this change and estimated them at \$54,150, based on the historical consumption level. Delta determined that the change saved approximately ten per cent on the cost of each tonne of asphalt.

**1.1.90** Another example is elevator maintenance, where Delta previously contracted with three different companies for the service of elevators at nine locations under five separate contracts. In 2012, the Corporation consolidated this procurement into one contract with one service provider. Staff told us that the quality of elevator servicing was maintained while Delta expected to achieve savings through reduced contract administration.

**1.1.91** Other examples reported by the Corporation of its efforts to achieve cost savings in operational procurement include:

- tendering for insurance, banking, plumbing services, aggregates, PVC pipes and other goods and services;
- tendering (rather than purchasing through the municipal purchasing co-operative) for office supplies, brass fittings and pool chemicals;
- consolidating the purchase of janitorial supplies;
- taking discounts where possible to optimize cash flow and save money by paying earlier; and,
- introducing fixed fee preventative maintenance program for Delta's HVAC systems in order to minimize outages and repair costs.

# FINDINGS

## A Commitment to Competitive Procurement



### What the Sampled Transactions Showed

**1.1.92** In addition to reviewing policies and procedures, we selected 24 transactions to see how they were implemented and then an additional 12 contracts to review Delta’s procurement of higher value contracts.

**1.1.93** Among the 24 procurement transactions we initially selected, we noted examples of searches for best value. We also found one case where the Corporation’s purchasing policy was not fully followed: the policy required that several categories of purchases over \$2,500 be competitively procured. The policy also stated that any exceptions to the policy must be approved by the Director of Finance or his delegate.

**1.1.94** We noted a \$5,000 purchase of sewage pump parts that was not supported either by a written justification for direct award, nor any evidence that this exception from the requirement for competitive procurement had been approved by the appropriate authority.

**1.1.95** Delta staff told us that there was only one supplier and that the transaction was approved by the appropriately delegated person. While we considered this to be a reasonable justification for the direct award, we noted that there was no documentation on file to support either of these assertions. Written justification maintained on file is essential to ensure transparency and openness in the use of public funds.

**1.1.96** Our review of 12 of the Corporation’s operational procurement contracts included seven multi-year contracts and five single-year contracts. This review sought to examine whether these contracts were tendered and awarded in accordance with the Corporation’s policies. This review found that all 12 contracts were appropriately tendered and awarded.

# FINDINGS

## Opportunities to Update Policies



Our examination revealed that Delta had fairly robust written policies and procedures for managing its procurement activities. However, the policies had not been updated for a number of years and had some gaps.

## Opportunities to Update Policies

**1.1.97** Complete, clear and up-to-date procurement-related policies and procedures are essential for local governments to ensure consistency in their efforts to achieve best value for tax dollars. This is particularly important as staff come and go over time.

**1.1.98** Our examination revealed that Delta had fairly robust written policies and procedures for managing its procurement activities. However, the policies had not been updated for a number of years and had some gaps. As a result, some practices had overtaken formal written policies and others were entirely unaddressed in policy.

## Outdated Policies and Procedures

**1.1.99** The Corporation's Policy and Procedures Manual indicated that its purchasing policies and procedures were last updated in 2006 and 2008. As noted previously, the Corporation's P-card policy was also issued in 2006 and had not been updated since then.

**1.1.100** Delta staff informed us that it intended to bring a revised purchasing policy to Council for approval during 2015. We are pleased that the Corporation intends to update its policies and procedures, as this will reduce the risk that practices may differ from written policies and procedures.

**1.1.101** For example, the Corporation made extensive use of BC Bid in advertising procurement opportunities, but this good practice was not required by the Corporation's policy, so there is no assurance that it will continue in the future, for example, when there is staff turnover.

# FINDINGS

## Opportunities to Update Policies



### Gaps in Policies

#### Direct Contract Awards

**1.1.102** We noted that Delta did not have written policy on how the awarding of contracts without competition – known as ‘direct awards’ – should be carried out. While the Corporation demonstrated that it had good practices in documenting the rationale for direct awards, we noted that there was no requirement in the policy to do so. We believe Delta should fully reflect its good procurement practices in its formal policies.

**1.1.103** We also noted that Delta did not publicly issue notices of intent for direct award contracts. Corporation staff told us that it compensates for this by obtaining Council approval for contract awards above \$50,000. In our view, a notice of intent for larger contracts serves the useful purpose of ensuring that all qualified bidders have an opportunity to become aware of and participate in the procurement process.

**1.1.104** While issuing notices of intent for larger direct awards would require the Corporation to establish thresholds and might require streamlining of some approval processes, we believe this is justified, as such a practice ensures maximum openness, fairness and transparency of the procurement process.

#### Debriefing of Unsuccessful Bidders

**1.1.105** Another area that could be added is formal policy on debriefing unsuccessful bidders. Corporation staff told us they believed such policies were unnecessary, as Delta provided debriefings on request.

**1.1.106** In our view, a policy requiring the Corporation to be proactive and consistently offer unsuccessful bidders a debriefing would assure suppliers of an opportunity to identify weaknesses in their bids and improve their future performance. It could also enhance the Corporation’s relations with suppliers.

#### Supplier Complaints and Dispute Resolution

**1.1.107** Delta had no policy on independently recording and maintaining records of complaints it received regarding operational procurement and how they were resolved. As a result, the Corporation did not maintain summarized information on the number of complaints received, time taken to resolve them and number still pending.

**1.1.108** For an organization the size and complexity of Delta, it is important for vendors with concerns to have a position independent of the department making the purchase to receive and look into complaints. If the Corporation identified such a position – perhaps elsewhere in the finance division – then vendors would not be required to file a complaint to the party they are complaining about.

**1.1.109** Further, policy requiring all disputes to be resolved in a timely and fair manner would allow for continued informal resolution of most disputes while further strengthening suppliers’ confidence in Delta’s procurement regime.

# FINDINGS

## Opportunities to Update Policies



We noted that the Corporation's policies did not require written assessment of vendor performance.

### Use of Procurement Templates

**1.1.110** Delta's policies did not mandate the use of the procurement templates maintained by its purchasing division, although the Corporation has used such templates since 2008. While individual template documents are internal working documents that may be revised from time to time, we believe there is value in acknowledging their existence in policy and requiring their use.

### Legal Advice

**1.1.111** Delta's purchasing policy did not stipulate the conditions under which legal advice on a new contract had to be sought and how to use such advice. Since contract documents impose legal rights and obligations on both parties, the Corporation's policy should require that larger contracts receive legal review to ensure that Delta's rights are fully protected and the terms of contracts will be enforceable.

### Additional Ethical Requirements

**1.1.112** We would have expected the Corporation to have processes in place to ensure staff involved in procurement declared and resolved any actual or perceived conflicts of interest in advance. We found that, while Delta personnel had a strong understanding of conflict of interest requirements, there were no ongoing mechanisms to monitor compliance and no requirement for staff involved in procurement activities to sign an

annual conflict of interest declaration. Instead, the withdrawal of Corporation personnel from a procurement if they had a conflict was left to the judgement of the individual.

**1.1.113** While Delta had a good practice of including in procurement documents provisions requiring potential suppliers to declare a potential conflict of interest prior to submitting a proposal or entering into a contract with the Corporation, Delta's policies did not require such clauses to be included. By including such a requirement, the Corporation would reinforce the use of this good existing practice and ensure its consistent application in the future.

### Unsolicited Proposals

**1.1.114** At the time of our audit, the Corporation's purchasing policy did not provide guidance on how to treat unsolicited proposals it may receive from suppliers. Delta staff indicated to us that they would be revising the policy to address this issue.

### Vendor Performance

**1.1.115** We noted that the Corporation's policies do not require written assessment of vendor performance. Delta staff told us they had a practice of documenting negative performance issues with vendors but did not document vendor performance in the absence of major issues. We believe the Corporation would benefit from formal, written assessments of all vendors, covering both positive and negative performance, for use in debriefing vendors and for comparing the relative merits of different vendors in future procurements.

## FINDINGS

### Need for Improved Information, Analysis, Monitoring & Reporting



Other than information on individual transactions, we found that Delta tracked a limited amount of procurement-related information, most of it relating to the volume of transactions.

### Need for Improved Information, Analysis, Monitoring & Reporting

**1.1.116** Given the pervasive and sometimes invisible nature of operational procurement, a local government's only way to really know how it is performing in this area is to gather information relating to procurement, analyze it, monitor procurement results and report on them. In the absence of these steps, decisions on how to carry out procurement cannot be fully informed.

**1.1.117** Our review of the Corporation of Delta's operational procurement practices identified many strengths, especially in the management of individual transactions and the containment of overall costs as noted in earlier sections of the report. We also found good examples of ad hoc initiatives aimed at 'going the extra mile' to generate savings.

**1.1.118** In our view, a mature, sophisticated organization like the Corporation could benefit from moving beyond a focus on managing individual transactions to also focus on clear strategic-level objectives for improvement in procurement and the identification and implementation of leading procurement practices. By setting measurable targets for its purchasing division, Delta would also find it easier to track the division's success.

#### Information and Analysis

**1.1.119** Other than information on individual transactions, we found that Delta tracked a limited amount of procurement-related information, most of it relating to the volume of transactions. In our view, the Corporation could do more to capture and consistently use data related to operational procurement, track trends, set cost saving and program delivery improvement targets and analyze the results of these efforts.

**1.1.120** For example, the Corporation would benefit from a centralized, comprehensive, complete and up-to-date database of all procurement contracts that includes information on contract value, whether a contract was direct awarded or let competitively and other information useful for monitoring and reporting.

# FINDINGS

## Need for Improved Information, Analysis, Monitoring & Reporting



**1.1.121** Delta would also benefit from using key performance indicators relating to operational procurement such as the rate of direct awards, number of formal supplier performance evaluations completed, the rate of procurement carried out contrary to policy or others. Such indicators would give a clearer sense of the purchasing division's progress over time. Our AGLG Perspectives booklet on operational procurement will provide suggestions in this area.

**1.1.122** In addition, the Corporation should review and revise the purchasing division's objectives to ensure they are specific, measurable, attainable, relevant and time-bound.

### Monitoring and Reporting

**1.1.123** We found that the purchasing division reported to the manager, financial services, annually, providing – among other information – examples of innovative procurement practices it employed and high-level estimates of potential savings.

**1.1.124** We found that staff reports to Council on the purchasing division's accomplishments on an annual basis through the Corporation's annual report. This reporting would be enhanced if the Corporation implemented meaningful performance indicators, as discussed previously, and reported against them.

## CONCLUSION

Opportunities for improvement relate to updating policies and enhancing tracking of procurement information and measurement of results.

**1.1.125** Overall, we found that Delta has set up systems and processes enabling it to manage its operational procurement with due regard for value for money. We noted that the Corporation has implemented a number of innovative and good practices to strategically manage its transactions and its overall approach to procurement. We identified some areas where policies and practices could be enhanced to achieve even greater benefits for Delta's taxpayers.

**1.1.126** During the period covered under our audit, Delta had taken a number of initiatives to generate value for tax dollars and deliver its programs in an effective and efficient manner. We are also impressed by the Corporation's stated desire to do even better in the future. While we noted some areas that could be strengthened, we also noted that Delta has worked hard at making sure individual transactions were well managed and operational budgets were respected.

**1.1.127** Most of the areas where we have identified opportunities for improvement relate to updating policies and enhancing the Corporation's tracking of procurement information and measurement of results.

**1.1.128** In our view, the Corporation of Delta is a sufficiently well-developed organization for such enhancements to be both feasible and likely to produce positive results, enhancing oversight and enabling the Corporation to take its operational procurement to the next level.

**1.1.129** We believe that, if Delta takes additional steps along the lines contained in our recommendations, it will enhance an already strong approach and foundation for operational procurement and reinforce its accountability reporting to Council and the community on this important area of activity.

## RECOMMENDATIONS

### Recommendation 1

The Corporation of Delta should review and update its procurement policies and procedures to formalize changes and improvements in practice that have already occurred. These changes should also include any known gaps in policies. These should include:

- provisions relating to conflict of interest such as a requirement for staff involved in procurement to declare potential conflicts of interest annually, the establishment and maintenance of a list of known potential conflicts of staff and Council members and a requirement for suppliers to sign a conflict of interest declaration;
- guidance on managing and controlling direct contract awards;
- guidance on the level and nature of documentation required in support of procurement decisions and summary level reporting to senior management and Council in cases where there is an exception to following the usual procedure;
- provisions covering unsolicited proposals, contract dispute resolution, the use of legal services in reviewing contracts and a process for the timely and fair resolution of disputes with suppliers;
- policy on debriefing unsuccessful bidders; and,
- policy on evaluation of vendor performance.

### Recommendation 2

The Corporation of Delta should further strengthen its strategic management of operational procurement by improving data collection, analysis, monitoring and reporting. This should include:

- revising purchasing division strategic objectives to ensure they are specific, measurable, attainable, relevant and time-bound;
- identifying, tracking and reporting on key performance indicators for the purchasing division to help evaluate the success of purchasing activities; and,
- making wider use of data already captured in information systems (or capturing additional procurement-related information) to carry out analysis in support of purchasing decision-making and reporting.

## SUMMARY OF LOCAL GOVERNMENT'S COMMENTS

March 2, 2015

Ms. Basia Ruta  
Auditor General for Local Government  
201 - 104 70 152nd Street  
Surrey, BC V3R 0Y3

Dear Ms. Ruta,

**Re: Delta's Response: Performance Audit of the Corporation of Delta, Achieving Value for Money in Operational Procurement**

We thank you for completing the performance audit "Achieving Value for Money in Operational Procurement". Delta appreciates receiving your confirmation that its systems and processes are robust and that it is obtaining value for the taxpayer's dollar. As you say in your report, Delta has implemented innovative and good practices to strategically manage its procurement.

The report contained two recommendations for Delta's consideration. The first recommendation relates to updating the purchasing policy, which has not been revised since 2006. Delta concurs with this recommendation. Staff has completed a draft re-write of the policy and will be presenting it to Council shortly.

The other recommendation relates to capture, analysis and reporting of data. Delta will continue its process of continuous improvement in this and all areas of procurement in order to achieve, as the report says, "even greater benefit for Delta's taxpayers".

We wish you the best with your future audits.

Yours truly,

Lois E. Jackson,  
Mayor

cc: Delta Council Standing Committee on Finance  
George V. Harvie, Chief Administrative Officer  
Karl D. Preuss, Director of Finance

## ABOUT THE AUDIT

All the audit work in this report was conducted in accordance with Canadian Standards on Assurance Engagements.

### Audit Objective

**1.1.130** The overall objective of this performance audit was to determine whether the Corporation of Delta was managing operational procurement strategically and with due regard for value-for-money.

### Audit Scope and Approach

**1.1.131** The audit included a review of the Corporation of Delta's performance in managing operational procurement in the years 2010, 2011 and 2012.

**1.1.132** It did not include procurement by any entities consolidated in Delta's financial statements or policing costs. It also did not include the procurement of physical assets. These were excluded as they were not routine, day-to-day procurement of goods and services.

**1.1.133** To carry out the audit, we undertook data analysis, interviews, process walkthroughs and review of documentation. We sampled 24 operational procurement transactions and assessed them against the audit criteria. We also reviewed 12 larger procurement contracts entered into during the audit period.

**1.1.134** We assessed the Corporation's implementation of policies and procedures designed to achieve best value and assessed the reporting of results by reviewing a sample of procurement files.

### Audit Criteria

**1.1.135** Performance audit criteria define the standards against which we assessed the Corporation of Delta's performance. We express these criteria as reasonable expectations for Delta's operational procurement processes and practices to achieve expected results and outcomes.

**1.1.136** Below are the criteria we used to assess the Corporation of Delta:

1. Operational procurement is managed strategically and linked to program and service delivery objectives.
  - a. Procurement plans and transactions are linked to approved priorities, programs and budgets.
  - b. All procurement options are considered and are in line with local government strategic policies and objectives.
2. Local governments are knowledgeable about the level of spending through procurement, as well as the nature and type of contractual arrangements entered into.
  - a. On an aggregate level, procurement expenditures are forecasted, budgeted, approved and monitored. Trends are analyzed and results are reported in a transparent manner.
  - b. Information provided to decision makers is comprehensive and covers the nature and breadth of procurement arrangements being planned.

## ABOUT THE AUDIT

3. Operational procurement results in best value through assessment of available sourcing options in keeping with local governments' strategic procurement objectives.
  - a. At the transactional level, sound planning and budgeting for procurement is conducted and planned acquisitions consider existing inventory levels and lifecycle costs. Opportunities for cost efficiencies and effectiveness in the procurement process are routinely explored, including in response to changes in market conditions.
  - b. Contracts are managed in a diligent manner to ensure that all terms and conditions are fulfilled.
  - c. The local government undertakes a systematic process to assess vendor performance and lessons learned from operational procurement experience are used to inform planning for future procurement.
4. Conflict of interest and other key procurement risks are mitigated.
  - a. In addition to Community Charter requirements for elected officials, the local government has implemented conflict of interest and code of conduct guidelines for staff, including disclosure.
  - b. Mechanisms are in place to ensure key procurement risks are identified and mitigated.
5. The procurement model is cost effective, value based, effective, transparent, affordable, implemented in accordance with legislative requirements and considers environmental and socio-economic impacts.
  - a. The local government has current and well documented policies, procedures, roles and responsibilities that are publicly known, linked to program objectives and well understood by users. Sufficient and appropriate documentation exists to support the basis of decision-making throughout the procurement process.
  - b. The awarding of operational procurement contracts follows a systematic process that is fair, transparent and in line with local government policies and relevant legislation. Other local government objectives including environmental, social and financial impacts are considered.
  - c. Reporting to decision-makers and the public is timely, accurate, and relevant and reports assess the results achieved through operational procurement activity and decisions.
6. Innovation and best practices are explored and implemented where appropriate.
  - a. The local government shares its knowledge of innovation and best practices in public procurement.
  - b. Best practices are implemented where appropriate in line with local government needs.

# ABOUT THE AUDIT

## Performance Audit Process

**1.1.137** At the beginning of the performance audit process, we shared key audit-related documents with the Corporation of Delta. These included a description of the audit background, focus, scope and criteria and an engagement protocol document describing the audit process and requirements. The process is summarized in Exhibit 7.

## EXHIBIT 7: Performance Audit Process



#### AGLG CONTACT INFORMATION

The AGLG welcomes your feedback and comments. Contact us electronically using our website contact form on [www.aglg.ca](http://www.aglg.ca) or email [info@aglg.ca](mailto:info@aglg.ca) to share your questions or comments.

You may also contact us by telephone, fax or mail:

**Phone:** 604-930-7100

**Fax:** 604-930-7128

**Mail:** AGLG  
201 - 10470 152nd Street  
Surrey, BC  
V3R 0Y3

## APPENDIX 1 – EXCERPT FROM DELTA PURCHASING POLICY

### Methods of Contracting for Goods, Services and Construction

#### Negotiation

The Corporation may negotiate with one or more vendors leading to an agreement when one of the following conditions exists:

- i. Limited vendor selection, only one source exists;
- ii. Two or more identical offers have been accepted;
- iii. All offers accepted exceed the budgeted amount;
- iv. Or all offers received are not acceptable.

Negotiations with a single vendor can be used when the Corporation has a clear, justifiable preference. In addition, negotiations can be used to extend a contract and it is deemed to be in the best interest of the Corporation to extend the contract.

#### Competitive

This method is guided by the Laws of Competitive Bidding. The determination of Best Bid or Best Value is made by the Manager of Financial Services, Purchasing Manager or delegate and may include an evaluation committee, depending on the value and complexity of the purchase.

#### Discretionary

Purchases of this nature are made in accordance with individuals authority limits and are deemed to be in the best interest of the Corporation. The purchase is to be made by authorized staff in accordance with this policy.

#### Emergency

The usual rules may be waived due to a prevailing emergency such as an earthquake, flood or sudden equipment or infrastructure failure. In coordination with Delta's Manager of Financial Services, Purchasing Manager or delegate, goods and services may be obtained by the most economical and expedient means.

#### Cooperative Purchasing

The Corporation may acquire goods in concert with other agencies, public or private. When the Corporation participates in cooperative acquisition ventures, the Corporation will follow the procedures set out by the agency responsible for the venture and not necessarily those detailed in the Purchasing Authorities and Responsibilities table. Authority to participate will be granted prior to entering into the venture and will follow the authority limits outlined in this policy. Information regarding contract awards exceeding \$50,000 will be forwarded to Council.

## APPENDIX 2 – PROCUREMENT TOOLS DEFINED

**Invitation to Quote** – A document issued to solicit quotes when the only competing factor is price.

**Invitation to Tender** – A document inviting vendors to submit prices for specified work. This is generally used only for construction projects.

**Notice of Intent** – A document advising the vendor community of an intention to directly award a contract in a situation where the purchaser believe only one qualified contractor is available.

**Purchase Order** – A document committing the purchaser to buy a specified good or service at a specified price and on terms outlined in the document.

**Request for Expressions of Interest** – A document aimed at gathering information on the availability of desired services or potential suppliers or the level of interest from the vendor community.

**Request for Information** – A document issued to obtain specific information about a good or service. This can include information on the availability or performance of the good or service.

**Request for Proposals** – A document outlining a requirement and asking vendors to respond with a proposed solution, their qualifications and price.

**Request for Qualifications** – A document aimed at pre-qualifying vendors for a subsequent competition.

**Standing Offer** – An offer from a supplier to provide goods or services at pre-arranged prices, under set terms and conditions, when and if required. (<https://buyandsell.gc.ca/for-businesses/selling-to-the-government-of-canada/the-procurement-process/standing-offers>)

**Standing Order** – A purchase order covering repeated deliveries of goods or services in specified quantities, at specified prices and according to a specific schedule. (<http://www.businessdictionary.com/definition/standing-order.html>)

Source: Unless otherwise indicated, <http://www.pss.gov.bc.ca/psb/pdfs/PurchasingHandbook.pdf>



**AUDITOR GENERAL FOR  
LOCAL GOVERNMENT**

ACCESSIBILITY • INDEPENDENCE • TRANSPARENCY • PERFORMANCE