



Audit Topic 1 – Report 2 (August, 2015)



ACHIEVING VALUE  
FOR MONEY IN  
OPERATIONAL  
PROCUREMENT

City of Vernon

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



**Audit Topic 1 – Report 2 (August, 2015)**

# **ACHIEVING VALUE FOR MONEY IN OPERATIONAL PROCUREMENT**

**City of Vernon**

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

## MESSAGE FROM THE ACTING AUDITOR GENERAL FOR LOCAL GOVERNMENT

I want to thank the City of Vernon for its cooperation during the performance audit process and its consideration of the report's findings and recommendations.



**1.2.1** I am pleased to present this performance audit report on the operations of the City of Vernon, covering the topic “Achieving Value for Money in Operational Procurement.”

**1.2.2** I want to thank the City of Vernon for its cooperation during the performance audit process and its consideration of the report's findings and recommendations.

**1.2.3** The office of the Auditor General for Local Government 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. One of the ways we do this is by conducting performance audits of local government operations and initiatives.

**1.2.4** Our performance audits are independent, unbiased assessments, carried out in accordance with professional standards. They aim to determine the extent to which the area being examined has been managed with due regard to economy, efficiency and effectiveness.

**1.2.5** This report outlines our findings in assessing the City of Vernon's management of the procurement of goods and services to support day-to-day operations, known as operational procurement. The City of Vernon is one of six local governments the office set out during 2013/14 to audit on this topic.

**1.2.6** Much of the work on this audit was completed prior to my appointment as acting AGLG. I was, however, involved in the finalization of the report, reviewed the work that went into it, discussed its contents with staff and I am confident that it has been completed to professional standards.

**1.2.7** This audit found that the City of Vernon has developed a number of procurement policies, procedures and practices intended to help achieve value for money in operational procurement. The report notes a number of specific instances, such as better inventory management, where the City has made particular progress.

## MESSAGE FROM THE ACTING AUDITOR GENERAL FOR LOCAL GOVERNMENT

**1.2.8** However, the audit also found some gaps in policy and some instances where staff did not follow the City's policies and procedures. Inconsistent compliance with the City's policies undermines the efforts underway in the City of Vernon to have a robust procurement regime. In addition, the audit found that the City needs to strengthen its gathering of information on operational procurement and its analysis, monitoring and reporting of meaningful results to senior management and Council.

**1.2.9** We understand that the City of Vernon has been making improvements to their procurement practices since our fieldwork was completed. While this is not part of our audit report, we encourage the City to continue to improve its practices and to ensure its efforts include a full response to all our audit recommendations. Doing this will be of significant benefit to the City and its citizens.

**1.2.10** Further to this and our other audit work in this area, we will be releasing an AGLG Perspectives booklet dealing with some key operational procurement matters for local governments to consider. This will include tools that should be relevant to a wide range of local governments, such as key performance indicators for measuring a local government's effectiveness in carrying out operational procurement, a purchasing policy content checklist for assisting local governments in a review and revision of their current procurement policies, as well as templates for measuring vendor performance.

**1.2.11** Our hope is that this audit report will assist the City of Vernon in furthering its efforts to deliver value for the tax dollars it spends.



**Arn van Iersel, CPA, FCGA**  
Acting Auditor General for  
Local Government

## Table of Contents

<b>2</b>	<b>MESSAGE FROM THE ACTING AUDITOR GENERAL FOR LOCAL GOVERNMENT</b>
<b>6</b>	<b>LIST OF EXHIBITS</b>
<b>7</b>	<b>EXECUTIVE SUMMARY</b>
<b>13</b>	<b>INTRODUCTION</b>
14	Operational Procurement
17	Our Expectations
18	What We Examined
<b>19</b>	<b>CONTEXT</b>
19	The City of Vernon
21	The City of Vernon’s Operational Procurement Expenditures
<b>22</b>	<b>FINDINGS</b>
22	Management of Procurement Transactions
23	Procurement Services
26	Continuous Improvement of the City of Vernon’s Operational Procurement
28	Need to Strengthen Procurement Policies
28	Purchasing Policy Gaps
30	Procurement Card Policy Gaps
31	Conflict of Interest Policy Gaps
31	Other Gaps in City Policies
32	Lack of Compliance With Policies
32	What The Sampled Transactions Showed

## 36 Opportunities for Improved Information Gathering, Analysis, Monitoring & Reporting

36 Challenges in Collecting and Analyzing Procurement Data

37 Monitoring and Reporting

**39 CONCLUSION**

**40 RECOMMENDATIONS**

**41 SUMMARY OF LOCAL GOVERNMENT'S COMMENTS**

**43 CITY OF VERNON'S ACTION PLAN**

**45 ADDITIONAL INFORMATION PROVIDED BY THE CITY OF VERNON REGARDING THE CITY'S INITIATIVES UNDERTAKEN FROM THE AUDIT PERIOD FORWARD**

**47 ABOUT THE AUDIT**

**50 APPENDIX 1 - PROCUREMENT TOOLS DEFINED**

## LIST OF EXHIBITS

- EXHIBIT 1: Summary of Recommendations
- EXHIBIT 2: City of Vernon Visual Facts
- EXHIBIT 3: City of Vernon Revenues and Expenditures 2010-2012 (in millions)
- EXHIBIT 4: City of Vernon Estimated Operational Procurement Expenditures Compared to Total Expenditures, 2010-2012 (in millions)
- EXHIBIT 5: City of Vernon Procurement Procedures for Goods and Services
- EXHIBIT 6: Performance Audit Process

## EXECUTIVE SUMMARY

The audit found that the City has procurement policies, procedures and practices intended to help achieve value for money in operational procurement. The audit also found areas for strengthening and improvement.

**1.2.12** 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

**1.2.13** Our objective was to determine whether the City of Vernon managed operational procurement strategically and with due regard for value for money during the audit period of 2010 through 2012. Our findings are based on our review of the City's procurement policies, procedures and practices. We undertook a review of procurement data and supporting documentation, interviewed staff and selected 25 operational procurement transactions for detailed review. We assessed the City of Vernon's internal controls and whether these were respected. We examined the tools the City used to pursue best value in operational procurement and its reporting of results.

### What We Found

**1.2.14** Overall, we found that the City has put in place a number of procurement

policies, procedures and practices intended to help achieve value for money in operational procurement. In particular, there were practices that assisted in obtaining efficiencies, such as better inventory management.

**1.2.15** However, we noted that the City needs to strengthen its procurement policies by filling policy gaps and improving compliance with policies. We also found that the City needs to strengthen its gathering of information on operational procurement, its analysis and the monitoring and reporting of meaningful results.

### Management of Procurement Transactions

**1.2.16** We found the City of Vernon was committed to managing procurement transactions and related risks and obtaining value for taxpayers.

**1.2.17** Prior to the period covered by the audit, the City dealt with an issue that arose from a breakdown of internal financial controls. This resulted in the City significantly changing its oversight and management practices. As part of these changes, the City centralized its procurement function – through the creation of the procurement services group within the financial services department – and integrated its purchasing and financial systems.

## EXECUTIVE SUMMARY

### Continuous Improvement of the City of Vernon's Operational Procurement

**1.2.18** We found that the City of Vernon worked to achieve continuous improvement in its procurement, seeking to increase the efficiency and effectiveness of the function.

**1.2.19** For example, in 2010, procurement services undertook initiatives to better manage operational procurement and to ensure the best use of the City's inventory. The group worked to 'right size' the City's inventory to ensure it kept on hand only what was needed. As a result of these efforts, we observed that the monthly average value of inventory the City had on hand declined from \$439,000 in 2010 to \$364,000 in 2012, representing a reduction of approximately 21 per cent.

**1.2.20** We also noted that, in 2012, procurement services reviewed standing purchase order activity and carried out an overall analysis of procurement card (P-card) spending. The City's goal was to find an appropriate balance between the use of these two procurement tools, identify savings opportunities and ensure compliance with policies. City staff told us that the review helped monitor value and the volume of such transactions and confirmed the overall appropriateness of methods staff used for purchasing.

### Need to Strengthen Procurement Policies

**1.2.21** 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.

**1.2.22** We found gaps in a number of the City's procurement-related policies. While the City's corporate policy on Purchasing, Consulting and Publicly Tendered Contracts was adequate in some areas, it required further review and significant strengthening in others. Gaps included:

- Lack of guidance on when a purchase required detailed written terms and conditions.
- Lack of a stipulation on the conditions under which legal advice on a new contract had to be sought and how to use such advice.
- Lack of guidance on how long a service contract could continue before it had to be put up for competition and lack of guidance on the circumstances under which a service contract could be extended.
- Lack of guidance on the level and nature of documentation required in support of procurement award decisions.

## EXECUTIVE SUMMARY

- Lack of requirements for managing and reporting on contracts awarded without competition (known as direct awards).
- Lack of a requirement for a party independent of the department seeking to procure goods or services to observe procurement evaluation processes for purchases above a certain dollar value.
- Lack of appropriate segregation of duties for the purchase of goods valued over \$150,000.
- Lack of guidance in other areas such as vendor prequalification, communication with vendors, debriefing of unsuccessful bidders, how to handle unsolicited proposals, contract dispute resolution and the assessment of vendor performance.

**1.2.23** We also found gaps in the City's procurement card (P-card) policy, as the City's use of the cards was not always consistent with the policy, and noted some areas where the City's commitment to a high standard of ethics could be enhanced by adding additional provisions to its conflict of interest policies.

### Lack of Compliance with Policies

**1.2.24** Our detailed testing of 25 operational procurement transactions entered into by the City between 2010 and 2012 found some areas where policy was followed consistently. However,

we also found that eight of the 25 transactions showed non-compliance with the City's policies. These included:

- **Noncompliance with Requirements for the Award of a Contract Without Competition** – Four out of six direct award transactions did not comply with the City's policies.
- **Inappropriate Expense Approval** – In one instance in 2010, the City's chief administrative officer approved P-card transactions carried out by his executive assistant for purchases that had been made on his behalf – a significant segregation of duties issue. One of the other expenditures was for the purchase of an airplane ticket for the then-Mayor to attend a provincial political party event. In our view, it is not appropriate for such a purchase to be made using a City of Vernon P-card. Staff told us this expense was reimbursed by a local company, but the City did not provide us with evidence to support this assertion. In addition, the company that staff told us reimbursed this expense was one of the City's vendors. While the City did only a small amount of business with this company during the period covered by the audit, such a reimbursement by a vendor could create real or perceived issues relating to conflict of interest. Both, the chief administrative officer and the Mayor left the City in December 2011.

## EXECUTIVE SUMMARY

- **Lack of Procurement Services Involvement and Lack of a Written Contract** – In 2011, a City department direct-awarded a \$35,000 purchase order to a vendor to provide services to the City without involving the purchasing services department in the transaction, contrary to the City’s purchasing policy. We also found that the City’s files contained no written contract but only a purchase order, also contrary to the City’s purchasing policy.
- **Lack of Compliance in the Procurement of Legal Services** – The City procured legal services contrary to the requirements of both its legal services policy and its professional services policy.
- **Non-Compliance With the City’s P-card Policy** – The City breached its P-card policy limit on the size of individual transactions.

### Opportunities for Improved Information Gathering, Analysis, Monitoring & Reporting

**1.2.25** The City’s monitoring of procurement results relied on the availability of relevant and timely data from the City’s information systems. Staff told us that they experienced challenges in running reports and that staff sometimes had to carry out manual reviews and reorganize data in an effort to make it easier to read, which can be time-consuming and prone to human error.

**1.2.26** In our review of both the City’s annual reports and their purchasing policy we noted that, while procurement services had a written set of objectives, these were very high level and did not indicate what would be an appropriate measure of success. The City of Vernon also did not establish and report on any performance indicators relating to operational procurement.

**1.2.27** We noted, however, that following the period covered by the audit, the City’s 2013 Annual Report stated that procurement services identified and utilized one performance indicator and intended to expand its use of key performance indicators. We are encouraged by the City of Vernon’s efforts in this area and would like to see the City consider additional performance indicators that would speak to the City’s efforts in procurement.

## EXECUTIVE SUMMARY

**1.2.28** We found that the Vernon City Council delegated its approval authority over procurement to City staff, for transactions of all sizes, with the exception of professional services such as auditing, banking, insurance and employee benefit plan brokerage services. While it is Council's prerogative to delegate purchasing authority to staff and we do not suggest that Council should be directly involved in procurement activities, we would have expected Council, in addition to its existing oversight of the budgeting process, to exercise effective oversight over procurement activities by balancing the extensive authority it has delegated to the chief administrative officer with requirements for clear and comprehensive reporting to Council. This could include reporting on the number of operational procurement contracts directly awarded, number of exceptions to policy compliance and others.

## Conclusion

**1.2.29** Overall, we found that the City of Vernon has put in place a number of procurement policies, procedures and practices intended to help achieve value for money in operational procurement.

**1.2.30** However, we noted that the City needs to strengthen its procurement policies and improve compliance with these policies in order to minimize procurement risk to the organization. In addition, the audit found that the City needs to strengthen its gathering of information on operational procurement, its analysis, monitoring and reporting of meaningful results to senior management and Council.

**1.2.31** In our view, if the City of Vernon adopts the recommendations in this report and continues to look for ways to increase value for money, it will generate lasting benefits for the City's taxpayers.

# EXECUTIVE SUMMARY

**EXHIBIT 1:**  
Summary of  
Recommendations

ISSUES	RECOMMENDATIONS
<p>1. Improving procurement policies and procedures</p>	<p>The City of Vernon should improve its procurement policies and procedures by addressing the gaps stated below and ensuring they fully support the City's commitment to achieving best value for money spent. Overall, the City should establish a process to ensure that its procurement policies are complete, clear, reviewed and updated regularly and that all procurement practices are included in the policies. Specific areas requiring attention include:</p> <ul style="list-style-type: none"> <li>• guidance as to when a purchase requires detailed written terms and conditions, whether provided in a contract or a purchase order, as well as related approval requirements;</li> <li>• guidance on the length of a service contract before it has to be put up for competition;</li> <li>• guidance on the level and nature of documentation required in support of procurement decisions;</li> <li>• guidance on managing and reporting on contracts awarded without competition and on publishing notices of intent;</li> <li>• guidance on procurement services' involvement in the evaluation process for open procurement;</li> <li>• provisions covering vendor prequalification, communication with vendors, debriefing unsuccessful bidders, unsolicited proposals, contract dispute resolution with suppliers, vendor performance evaluation and the use of legal services in reviewing contracts;</li> <li>• enhanced provisions relating to conflict of interest such as annual declarations by staff involved in procurement, a requirement for potential suppliers to sign a conflict of interest declaration, the establishment and maintenance of a list of related parties and potential conflicts of interest of staff and Council members and a review of the list as part of the procurement award process; and,</li> <li>• updating of the City's P-card policy to ensure it is up to date and includes changes made previously to the purchasing policy, for example, the \$3,000 limit for a single P-card purchase.</li> </ul>
<p>2. Ensuring staff compliance with policies</p>	<p>The City of Vernon should monitor and enforce compliance with its procurement policies and procedures, including ensuring that proper documentation is kept on file to support procurement decisions.</p>
<p>3. Improving information gathering, analysis, monitoring and reporting</p>	<p>The City of Vernon should manage its operational procurement strategically by improving data collection, analysis, monitoring and reporting. This should include:</p> <ul style="list-style-type: none"> <li>• revising the City's procurement services objectives to ensure they are specific, relevant and measurable;</li> <li>• developing key performance indicators for procurement services, monitoring progress and reporting to senior management and Council on the achievement of expected results;</li> <li>• collecting additional procurement-related information to carry out analysis in support of procurement decision-making and reporting; and,</li> <li>• automating, to the extent possible, and where appropriate, review processes that are currently carried out manually.</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.

**1.2.32** 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*.

**1.2.33** 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 audit topics for audits launched during 2013/14, including the topic of this performance audit: “Achieving Value for Money in Operational Procurement.”

**1.2.34** We identified this topic as a priority because local governments spend significant taxpayer funds for the purchase of 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 result in value for money and enhance program delivery.

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

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 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

**1.2.35** We selected the City of Vernon 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.

**1.2.36** The others being audited on this topic were Comox Valley Regional District, Fraser-Fort George Regional District, Corporation of Delta, City of Revelstoke and District of West Vancouver.

**1.2.37** 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 may consider conducting more audits in this area in the future.

## Operational Procurement

**1.2.38** 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. In the case of the City of Vernon, we have estimated operational procurement spending amounts to approximately 21 per cent of the City's total expenditures.

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

- it can involve widely varying types of goods and services;
- it often involves a relatively high volume of transactions;
- for many local governments, it also involves a relatively large number of suppliers;
- individual transactions may vary widely in price;

# INTRODUCTION

- 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 of the transaction tends to be dispersed across the organization.

**1.2.40** 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.

**1.2.41** 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, and strategic approach.

**1.2.42** 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 relatively small dollar value transactions in order to maximize value for money. Such a decision depends on the specific circumstances of the local government and the perceived risks and rewards.

**1.2.43** 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 stay within their budgets.

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

# INTRODUCTION

**1.2.45** 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.

**1.2.46** 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 indicators to track success. They gather data on costs and analyze it with a clear focus on continually pursuing best overall value.

**1.2.47** Local governments that manage their operational procurement strategically know that small 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 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 uses clear and quantifiable objectives to identify strategies for improvement and develops performance indicators to measure their success.

The local government monitors how procurement is carried out and its outcomes. The resulting information is analyzed and used 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 value for tax dollars.

## INTRODUCTION

We expect a local government to have in place operational procurement policies, procedures and practices scaled to its size and resources.

### Our Expectations

**1.2.48** 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.

**1.2.49** We therefore expect a local government to have in place operational procurement policies, procedures and practices scaled to its size and resources. These 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, monitored and mitigated.
- 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

**1.2.50** The overall objective of this performance audit was to determine whether the City of Vernon managed operational procurement strategically and with due regard for value for money.

**1.2.51** Our findings are based on our review of the City's procurement policies, procedures and practices between 2010 and 2012, including the functioning of the City's central procurement services group. We undertook a review of procurement data and supporting documentation and we interviewed staff.

**1.2.52** In addition, we selected 25 operational procurement transactions relating to the period covered by the audit for detailed review. These transactions were selected on a judgemental basis in order to gain an understanding of the types of operational procurement transactions the City of Vernon undertook and how staff complied with the City's policies and procedures.

**1.2.53** The audit also assessed whether the City of Vernon had put in place appropriate internal controls over procurement and whether these were respected. We examined the tools the City of Vernon used to pursue best value in operational procurement and its reporting of results.

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

**1.2.55** 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 priorities that may be set out in local government policy.

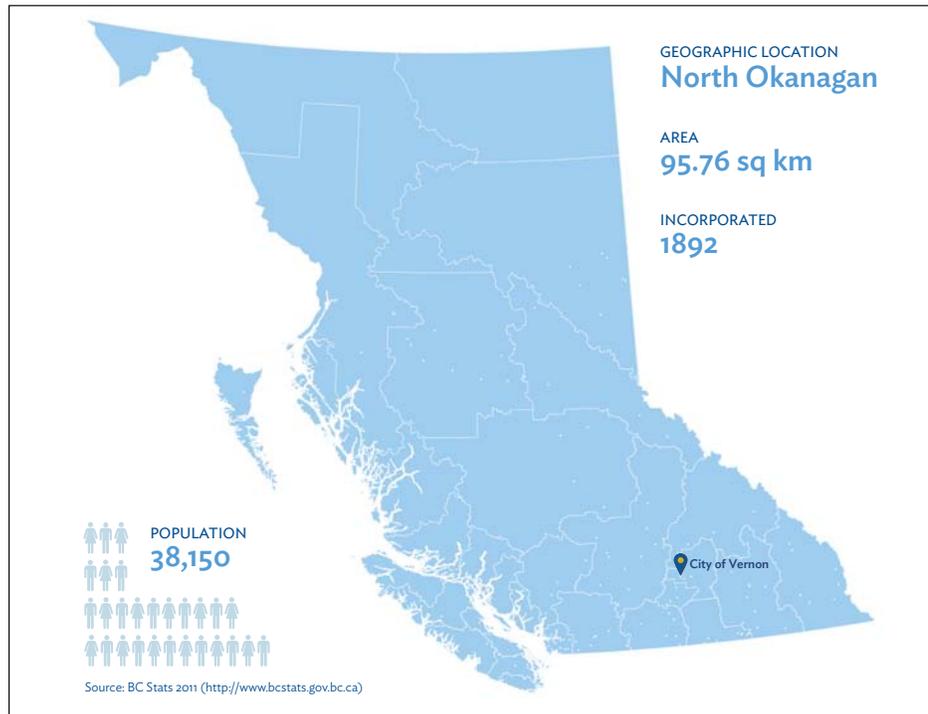
The concept of best value can include considerations such as social or environmental values as well as narrower, more traditional, measures of quality and effectiveness.

# CONTEXT

## The City of Vernon

**1.2.56** The City of Vernon is located in the southern interior of British Columbia in the Okanagan Valley. The City is the oldest incorporated city in the Valley, incorporated in 1892. Home to 38,150 people as of 2011, the City covers a land area of almost 96 square kilometres, is surrounded by grassland hills and three lakes and offers opportunities for year round recreation for residents and visitors.

**EXHIBIT 2:**  
City of Vernon Visual Facts



# CONTEXT

1.2.57 Exhibit 3 shows that the City of Vernon’s tax revenues grew over the three year period covered by the audit, while other revenues declined, as did total revenues. The City’s total expenditures increased by 3.4 per cent from \$56.7 million in 2010 to \$58.6 million in 2012, mainly due to increases in salaries and wages as well as contracted services expenditures.

**EXHIBIT 3:**  
City of Vernon Revenues and Expenditures 2010-2012 (in millions)

	2010	2011	2012 (RESTATED)	CHANGE 2010-2012
Taxation Revenue	\$24.7	\$25.5	\$26.4	+6.9%
Other Revenue	\$36.2	\$34.3	\$32.9	-9.1%
<b>TOTAL REVENUE</b>	<b>\$60.9</b>	<b>\$59.8</b>	<b>\$59.3</b>	<b>-2.6%</b>
TOTAL EXPENDITURES	\$56.7	\$57.4	\$58.6	+3.4%

Source: Consolidated Financial Statements included in the City of Vernon’s 2011, 2012 and 2013 Annual Reports (audited).

## CONTEXT

The City of Vernon’s operational procurement accounted for significant expenditures during the period covered by the audit.

### The City of Vernon’s Operational Procurement Expenditures

**1.2.58** The City of Vernon’s operational procurement accounted for significant expenditures during the period covered by the audit. Exhibit 4 shows an estimate of the City’s operational procurement expenditures in selected areas for 2010 through 2012.

**1.2.59** As the exhibit indicates, estimated operational procurement spending by the City of Vernon was consistent over the period covered by the audit, averaging around \$12 million per year. Our analysis shows that this amounted to approximately 21 per cent of the City’s total expenditures in each year.

**1.2.60** Like other local governments, the diverse nature of the City of Vernon’s operations and procurement required devoting resources to processing a significant number of invoices: about 11,600 on average per year – or more than 900 per month – during the period covered by the audit, including both operational and capital procurement.

**EXHIBIT 4:**  
City of Vernon Estimated Operational Procurement Expenditures Compared to Total Expenditures, 2010-2012 (in millions)

	2010	2011	2012 (RESTATED)	CHANGE
Supplies, Materials and Other	\$5.6	\$5.3	\$5.1	-8.9%
Contracted Services (excluding policing)	\$6.4	\$7.0	\$7.2	12.5%
<b>TOTAL ESTIMATED OPERATIONAL PROCUREMENT EXPENDITURES</b>	<b>\$12.0</b>	<b>\$12.3</b>	<b>\$12.3</b>	
<b>TOTAL EXPENDITURES AS PER AUDITED FINANCIAL STATEMENTS</b>	<b>\$56.7</b>	<b>\$57.4</b>	<b>\$58.6</b>	
<b>ESTIMATED OPERATIONAL PROCUREMENT EXPENDITURES AS % OF TOTAL EXPENDITURES</b>	<b>21%</b>	<b>21%</b>	<b>21%</b>	

Source: City of Vernon Annual Report 2013, “Consolidated Expenses by Object” sections of Supplementary Financial Information (unaudited).

## FINDINGS

We found that the City of Vernon was committed to managing procurement transactions and related risks and obtaining value for taxpayers.

**1.2.61** Overall, we found that the City of Vernon has put in place a number of procurement policies, procedures and practices intended to help achieve value for money in operational procurement. In particular, there were practices that assisted in obtaining efficiencies, such as better inventory management.

**1.2.62** However, we noted that the City needs to strengthen its procurement policies by filling policy gaps and improving compliance with these policies in order to minimize procurement risk to the organization. Inconsistent compliance undermines the efforts underway in the City of Vernon to have a robust procurement regime. In addition, the audit found that the City needs to strengthen its gathering of information on operational procurement, its analysis and the monitoring and reporting of meaningful results to senior management and Council.

### Management of Procurement Transactions

**1.2.63** We found that the City of Vernon was committed to managing procurement transactions and related risks and obtaining value for taxpayers.

**1.2.64** The City's procurement framework consisted primarily of policies covering purchasing, a centralized procurement services group that coordinated many operational procurement transactions, and oversight by the City's financial services department.

# FINDINGS

## Procurement Services

**1.2.65** Prior to the period covered by the audit, the City dealt with an issue that arose from a breakdown of internal financial controls. This resulted in the City of Vernon significantly changing its oversight and management practices, starting in 2007. This process sought to strengthen internal controls and modernize procurement activities. As part of these changes, the City centralized its procurement function – through the creation of the procurement services group within the financial services department – and integrated its purchasing and financial systems.

**1.2.66** Procurement services was responsible for providing support to the City to ensure an uninterrupted supply of goods and services of appropriate quality and value. In particular, the department was responsible for having various degrees of involvement in procurement transactions including the preparation and issuance of procurement documents (such as purchase orders, requests for proposals, tenders and contracts), uploading of competitions to the Internet, inventory management, management of surplus and scrap, sourcing and research on new products and technologies, and other related activities.

**1.2.67** Procurement services' mandate was supported by the City's corporate policy on Purchasing, Consulting and Publicly Tendered Contracts. The policy included the following high level objectives for procurement services:

- “To maximize the long-term value of the City's dollar recognizing the best buy encompasses evaluation of price, quality, service, delivery, training and performance to determine the total cost of ownership.
- To maintain a high standard of equity, honesty and open communication.
- To ensure that all suppliers are given fair and equal access to do business with the City of Vernon.”

**1.2.68** The policy also included a requirement to involve procurement services in all purchases over \$1,000. Having a focal point for procurement enabled the City of Vernon to go to market to procure goods and services more efficiently and effectively. Specialized procurement staff assisted departments with purchasing, promoting consistent compliance with purchasing policies.

**1.2.69** During the period covered by the audit, procurement services was composed of three staff members, including a procurement manager who reported to the director, financial services. Staffing costs, including salaries and benefits, for the group were \$256,000 in 2012.

## FINDINGS

We found that the City worked to achieve continuous improvement in its procurement, seeking to increase the efficiency and effectiveness of the function.

**1.2.70** The procurement manager had the authority to influence procurement decisions across the organization and monitor procurement transactions. Staff members from the City's various divisions and departments were also involved in procurement.

### Range of Procurement Tools and Practices

**1.2.71** The City of Vernon used a variety of methods to carry out procurement, including individual purchase orders, standing purchase orders, procurement cards and stand-alone contracts.

**1.2.72** The City used various mechanisms to manage competitions:

- **request for quotation or information** (RFQ or RFI) for purchasing standard goods available in the marketplace;
- **request for expressions of interest** (RFEI) to gather information on the expertise and qualifications of potential vendors;
- **request for proposals** (RFP) to solicit proposed solutions to a described opportunity or problem. These opportunities may be open or by invitation and generally result in negotiations with one or more successful vendors;
- **two part proposal call** for large projects, using a request for expressions of interest followed by a request for proposals directed to short-listed suppliers; and,

- **invitation to tender** (ITT) to solicit sealed bids for specific goods or services, where the solution being sought is clearly defined and there should be no need for negotiations.

**1.2.73** We observed that the City of Vernon pursued collaborative purchases and the consolidation of contracts to help ensure effective and efficient purchasing. The City posted all open procurement competitions such as requests for proposals, requests for quotes, invitations to tender and others, as well as annual procurement contract awards, on its website, thereby making this information freely available for potential vendors and for public scrutiny.

# FINDINGS

**1.2.74** Exhibit 5 summarizes the City’s requirements for the purchase of goods and services as stated in its corporate policy manual.

**1.2.75** We observed that Council fully delegated its purchasing authority to staff and the City established dollar value limits defining which staff positions in the organization had the authority to approve purchases of varying amounts.

**EXHIBIT 5:**  
**City of Vernon**  
**Procurement Procedures**  
**for Goods and Services**

AREAS	PURCHASES UP TO \$1,000	PURCHASES ABOVE \$1,001 UP TO \$10,000	PURCHASES ABOVE \$10,001 UP TO \$49,999	PURCHASES ABOVE \$50,000 UP TO \$150,000	PURCHASES OVER \$150,000
<b>Goods</b>	Purchase Card, Standing PO, Direct Purchase.	Obtain 2–3 informal quotes.	Obtain 3 formal quotes.	Public Tender Call or Public RFP.  NWPTA Regulation over \$75,000.	Public Tender Call or Public RFP.  NWPTA Regulation over \$75,000.
<b>Services</b>	Purchase Order, Standing PO.	Obtain 2–3 informal quotes.  Issue RFP.	Obtain 3 formal quotes.  Issue RFP.	Public Tender Call, or Public EOI or Open RFP.  NWPTA Regulation over \$75,000.	Public Tender Call or Public RFP.  NWPTA Regulation over \$75,000.

Note: See Appendix 1 for definitions of procurement tools

Source: City of Vernon Corporate Policy Manual, “Purchasing, Consulting and Publicly Tendered Contracts” 2011

## FINDINGS

### Continuous Improvement of the City of Vernon's Operational Procurement

**1.2.76** We found that, starting with its move to a centralized procurement function prior to the period covered by the audit, the City of Vernon worked to achieve continuous improvement in its procurement, seeking to increase the efficiency and effectiveness of the function. Examples of some of the initiatives introduced by the City are described in the following paragraphs.

#### Inventory Management

**1.2.77** In 2010, procurement services undertook initiatives to better manage operational procurement and to ensure the best use of the City's inventory. The group worked to 'right size' the City of Vernon's inventory to ensure it kept on hand only what was needed. To accomplish this, procurement staff were responsible for actively monitoring inventory levels and usage – focusing on gravel and similar items, as well as hard goods – while working with individual departments to better understand the nature of their supply requirements and entering into competitively bid contracts to realize savings.

**1.2.78** The City also reduced the amount of obsolete inventory and entered into price-protected contracts for specific inventory categories actively targeted by the City.

**1.2.79** As a result of the City's efforts, we observed that the monthly average value of inventory the City had on hand declined from \$439,000 in 2010 to \$364,000 in 2012, representing a reduction of approximately 21 per cent.

## FINDINGS

### Use of Purchase Orders and Procurement Cards

**1.2.80** We noted that, in 2012, procurement services reviewed standing purchase order activity and carried out an overall analysis of procurement card (P-card) spending.

**1.2.81** During the year, the City had approximately 70 standing purchase orders, totalling about \$1.0 million in value. About 90 P-cards were in circulation, held by about 28 per cent of all staff. They were used for small purchases, with a single purchase limit of \$1,000 and collectively accounted for about 3,500 transactions per year, totalling approximately \$500,000. The City of Vernon received about \$4,500 in annual rebate revenue from its use of P-cards.

**1.2.82** Procurement services worked to identify opportunities for savings and ensure compliance with the City of Vernon's policies. City staff told us that the review helped monitor value and the volume of such transactions and confirmed the overall appropriateness of methods staff used for purchasing.

### Other Examples of Improvements

**1.2.83** We also found other examples of the City's commitment to properly manage procurement risks and obtain value for taxpayers. For example, the City of Vernon conducted joint procurement through an informal buying group that included Vernon, Kelowna, West Kelowna, Penticton and Kamloops. The City also consolidated some contracts as well as explored the potential of additional cooperative arrangements, for example, the consolidation of garbage and bluebag recycling services.

## FINDINGS

We found that the City's Policy on Purchasing, Consulting and Publicly Tendered Contracts was adequate in some areas but required further review and significant strengthening in others.

### Need to Strengthen Procurement Policies

**1.2.84** 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.

**1.2.85** The City of Vernon's procurement framework included the City's corporate policy on Purchasing, Consulting and Publicly Tendered Contracts and other policies such as a P-card policy, code of ethics, conflict of interest policy, whistleblower policy, travel policies, legal services and professional services policies.

#### Purchasing Policy Gaps

**1.2.86** We found that the City's corporate policy on Purchasing, Consulting and Publicly Tendered Contracts was adequate in some areas but required further review and significant strengthening in others.

#### Requirement for Detailed Terms and Conditions

**1.2.87** The City's purchasing policy lacked guidance as to when a purchase required detailed written terms and conditions, whether provided in a contract or a purchase order. This could result in inconsistency – for example, when there is perceived risk related to specifications or a warranty – and situations where the City does not adequately protect its interests.

**1.2.88** We also noted that the City had different approval requirements for contracts as compared to purchase orders, which resulted in additional inconsistency.

#### Legal Advice

**1.2.89** The City'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 City's policy should require that larger contracts – especially where standard wording is modified – receive legal review to ensure that the City's rights are fully protected and the terms of contracts are enforceable.

## FINDINGS

### Length of a Service Contract

**1.2.90** The policy did not provide guidance on how long a service contract could continue before it had to be put up for competition and also did not provide guidance on the circumstances under which a service contract could be extended. It did, however, provide guidance on these matters for annual supply contracts and standing purchase orders.

### Requirement for Formal Documentation

**1.2.91** The policy did not provide guidance on the level and nature of documentation required in support of procurement award decisions. We noted that, in some cases, the City could only provide us with verbal explanations, as it had kept no supporting documentation on file.

### Management of Contracts Awarded Without Competition

**1.2.92** While the policy included requirements for the administration of tendered contracts, it did not include requirements for managing and reporting on contracts awarded without competition (known as direct awards).

**1.2.93** The policy also did not require that a Notice of Intent be publicly issued when the City intended to direct award a contract. This is a good practice that is, for example, required by the Province of B.C.

### Open Procurement Evaluation

**1.2.94** The City's purchasing policy did not require that a party independent of the department seeking to procure goods or services – such as procurement services – observe the procurement evaluation processes for purchases above a certain dollar value to ensure the process was objective, followed the required procedures and was awarded fairly.

### Segregation of Duties and Approval Threshold

**1.2.95** We noted that, for purchases of goods valued over \$150,000, the policy provided the City's treasurer with the authority to sign a purchase requisition and also to approve a purchase order. In our view, these two tasks should be carried out by different positions to ensure the transaction is appropriately reviewed.

## FINDINGS

### The City's use of P-cards was not always consistent with its P-card policy.

#### Other Gaps

**1.2.96** The policy lacked guidance in other areas such as vendor prequalification, communication with vendors, debriefing of unsuccessful bidders, how to handle unsolicited proposals, contract dispute resolution and the assessment of vendor performance.

**1.2.97** Additionally, some of the City's established procurement practices were not reflected in its purchasing policy. For example, the City had a practice of announcing on its website the names of successful bidders in procurement competitions, but this good practice was not reflected in the City's purchasing policy and was not done consistently.

**1.2.98** In general, we also noted that the purchasing policy did not always have clear, inclusive and concise language, was not consistently formatted and had inconsistent terminology and explanations of the terms used. While the City updated its purchasing policy in September 2014, we noted that the revisions did not yet address this issue or most of the other issues identified here.

#### Procurement Card Policy Gaps

**1.2.99** The City of Vernon's P-card policy was adopted in 2009 and had not been updated since then. We observed that the City's use of P-cards was not always consistent with its P-card policy. For example, City staff had an established practice of using P-cards to pay expenses associated with attending conferences, even in situations where the expense exceeded the policy's dollar limit for a single purchase, which was \$1,000.

**1.2.100** In November 2014, the City updated its purchasing policy to remedy this situation by increasing the P-card limit for a single purchase to \$3,000. However, we noted that the City did not update its P-card policy to reflect this change. City staff told us that they intended to bring a revised P-card policy to Council for approval during 2015.

## FINDINGS

We noted some areas where the City's commitment to a high standard of ethics could be enhanced by adding additional provisions to its conflict of interest policies.

### Conflict of Interest Policy Gaps

**1.2.101** We noted that the City had a conflict of interest policy dated 2005 to guide members of Council on the declaration of any conflict of interest in accordance with the *Community Charter*. Also, Council members and senior management were required to sign an annual statement of disclosure under the *Financial Disclosure Act*.

**1.2.102** The City also had a code of ethics dated 2006 to guide staff on ethical principles, including conflict of interest. This included communicating any violations or suspected violations using the mechanism provided in the City's Whistleblower Policy.

**1.2.103** In addition, conflict of interest disclosure requirements were embedded in the City of Vernon's professional services agreement and tender document templates.

**1.2.104** However, we noted some gaps in the City's ethical provisions related to the conflict of interest. Examples of these include:

- there is no requirement for non-senior management staff involved in procurement to sign off on the City's code of ethics and declare potential conflicts of interest annually;

- the City does not maintain a list of known potential conflicts of staff and council members to share with staff involved in procurement activities;
- the City does not examine – as part of the contract award process – the annual statements of disclosure submitted by Council members and senior management;
- there is no provision for the periodic review of vendors with long term arrangements with the City to identify any potential conflict of interest; and,
- vendors are not required to disclose potential conflicts as part of the procurement process or sign a conflict of interest declaration, except where such a clause is included in a professional services agreement or tender document.

### Other Gaps in City Policies

**1.2.105** The City engaged several different law firms for legal services through transactions that were exempt from the City's purchasing policy. We noted that this procurement of legal services was covered by two policies: the legal services policy and the professional services policy. These policies were not consistent in their requirements regarding the frequency of procurement competitions for law firms.

## FINDINGS

We found some areas where policy was followed consistently. We also found some significant issues regarding compliance with the City's policies and procedures.

### Lack of Compliance With Policies

#### What the Sampled Transactions Showed

**1.2.106** We undertook detailed testing of 25 operational procurement transactions entered into by the City between 2010 and 2012. This sample included six direct award transactions, twelve competitive bids, two P-card statements, and five other transactions related to purchases made on behalf of the regional district and others. For each transaction, we focussed on the need for the procurement, due diligence, appropriate approvals and the preparation and maintenance of appropriate documentation.

**1.2.107** Our review of the selected transactions found some areas where policy was followed consistently. For example, in all cases where there was competitive procurement, respondents were notified of the competition's outcome.

**1.2.108** However, we also found some significant issues regarding compliance with the City's policies and procedures. Out of 25 transactions tested, eight transactions showed non-compliance with the policies. These are described in the following sections.

#### Noncompliance with Requirements for the Award of a Contract Without Competition

**1.2.109** We observed that, prior to September 2011, the City's purchasing policy was silent on the direct awarding of contracts without competition. The City's purchasing policy was revised in that month to specify that there were certain occasions where the usual requirement for competitive procurement could be waived. This policy revision outlined the due diligence that had to be performed in this event and stated that justification for such a contract award had to be submitted for approval using a *Direct Award Justification* form.

**1.2.110** Overall, out of six direct award transactions tested, we found that four did not comply with this requirement. All four took place after the September 2011 policy change and none of the four had a *Direct Award Justification* form prepared and approved. The City stated that, although the purchasing policy was not followed, it made the best choice available at that time by directly awarding contracts to these four vendors, and therefore acted in the best interests of taxpayers.

**1.2.111** We noted that one of these four transactions was also non-compliant with the City's policy on the extension of annual supply contracts and standing purchase orders. The City's purchasing policy limited the extension of such a contract or purchase order to no more than once and for a term no longer than the original term.

## FINDINGS

**1.2.112** The transaction in question involved the acquisition of goods from a supplier that had last participated in an open competition for this purchase in May 2007. That competition resulted in a one year agreement between the City and the vendor, with the possibility of an extension for a second year.

**1.2.113** As permitted by the agreement, the arrangement was extended for a second year in 2008. At the end of that year, the City continued the arrangement for a third year in 2009, contrary to the policy limiting the extension of annual supply contracts and standing purchase orders.

**1.2.114** The City then proceeded to grant additional extensions in 2010, 2011 and 2012, all without competition and all contrary to the policy. This non-compliance was in addition to not documenting the justification for the 2012 extension – which was a direct award – as required by the 2011 policy revision. In 2012 alone, the City paid this supplier more than \$400,000.

### **Inappropriate Expense Approval**

**1.2.115** We noted that, in one instance in 2010, the City's chief administrative officer approved his executive assistant's P-card transactions. Approximately \$1,500 of these purchases had been made on behalf of the chief administrative officer. Some other expenses among the same group of P-card transactions included purchases made on behalf of the then-Mayor.

**1.2.116** In our view, the chief administrative officer approving expenses incurred on his own behalf created a significant segregation of duties issue. According to the City's travel policy, payment of chief administrative officer claims for travel expenses – which were a portion of the expenses in this case – should have been authorized by the manager of finance and the Mayor. Another portion of the claim – which were non-travel expenses – should have been authorized in accordance with the P-card policy, however, we noted that the policy was silent on who should approve the chief administrative officer's P-card expenses.

## FINDINGS

**1.2.117** In addition, one of the other expenditures in the same case was for the purchase of an airplane ticket for the then-Mayor in the amount of \$400. City staff told us the purpose of this expense was for the then-Mayor to attend a provincial political party event in Vancouver and that the expense was later reimbursed by a local company. In our view, it is not appropriate for such a purchase to be made by City staff using a City of Vernon P-card. Our concerns include the following:

- A City of Vernon P-card should never have been used for personal and non-business related purchases, as this is prohibited by the City's P-card policy. City staff advised us that the cost of the flight was reimbursed, however, no evidence was provided to support this assertion.
- This expense was inappropriately approved by the chief administrative officer, contrary to the City's Travel and Expense Policy Applicable to Mayor, Council, Board and Committees, which required the authorization of the manager of finance and "administrator" rather than the chief administrative officer. We also noted that the policy did not specify who could act as "administrator".

- The City's documentation for this purchase did not indicate the purpose of this trip, contrary to the same policy.
- The company that staff told us reimbursed the City for this expense was one of the City's vendors. While the City did only a small amount of business with this company during the period covered by the audit, such a reimbursement by a vendor could create real or perceived issues relating to conflict of interest.

Both the chief administrative officer and the Mayor left the City in December 2011.

### **Lack of Procurement Services Involvement and Lack of a Written Contract**

**1.2.118** In April 2011, a City department direct-awarded a \$35,000 purchase order to a vendor to provide services to the City. This transaction was completed without involving procurement services, despite the fact that the City's purchasing policy required that group's involvement in all transactions above \$1,000. We also found that the City's files contained no written contract but only a purchase order, also contrary to the City's purchasing policy.

## FINDINGS

**1.2.119** We did not find a written justification for this direct award in the City's files. While the City's purchasing policy at the time did not require a written justification, this is a good practice and should have been followed even if not required by the policy.

**1.2.120** Procurement services subsequently became involved and, in 2012, initiated an open competition for the purchase of this type of service.

### **Lack of Compliance in the Procurement of Legal Services**

**1.2.121** As discussed previously, the City's procurement of legal services was covered by its legal services policy and its professional services policy. We noted that the City did not follow either policy in its procurement of legal services, as the City of Vernon did not call for submissions from law firms specializing in municipal law, as required by both policies, but instead selected law firms on a case-by-case basis.

### **Non-Compliance with the City's P-card Policy**

**1.2.122** We noted that one of the sampled transactions was a P-card charge that exceeded the City's \$1,000 limit per P-card transaction. As mentioned earlier, procurement services conducted an overall analysis of P-card spending in 2012. Through this analysis, the City found that 17 per cent of P-card transactions did not comply with the P-card policy because they exceeded the \$1,000 single purchase limit. This issue was addressed through a change to the City's purchasing policy in 2014, which needs to be reflected in a similar revision to the P-card policy.

## FINDINGS

### Opportunities for Improved Information Gathering, Analysis, Monitoring & Reporting

**1.2.123** Given the pervasive and sometimes disparate 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 from across the organization, 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.

### Challenges in Collecting and Analyzing Procurement Data

**1.2.124** The City's monitoring of procurement results relied on the availability of relevant and timely data. Staff informed us that they experienced difficulties in querying the City's information systems and running reports that provided information in a user friendly format. Additionally, some staff members with reporting needs lacked software licenses allowing them to generate reports in a user friendly format.

**1.2.125** As a result of these issues, staff sometimes had to carry out manual reviews and reorganize data in an effort to make it easier to read, which can be time-consuming and prone to human error.

## FINDINGS

During the period covered by the audit, the City of Vernon did not establish and report on any performance indicators relating to operational procurement. However, we are encouraged by the City of Vernon's recent efforts to establish and report on performance indicators.

### Monitoring and Reporting

**1.2.126** In our review of both the City's annual reports and their purchasing policy we noted that, while procurement services had a written set of objectives, these were very high level and provided no indication of what would be an appropriate measure of success. This made it difficult for the City to assess the extent to which the group was meeting its objectives.

**1.2.127** We observed that, during the period covered by the audit, the City of Vernon did not establish and report on any performance indicators relating to operational procurement. For example, we found that the City had no mechanism to monitor how many contracts were direct awarded and whether those awards were in compliance with policy, the extent to which savings through initiatives implemented to date had actually been achieved, or other similar measures.

**1.2.128** We noted, however, that, following the period covered by the audit, the City's 2013 annual report stated that procurement services identified and utilized one performance indicator during 2013 that would allow the City to monitor and analyze corporate purchase requests. The report also said that the City intended to expand its use of key performance indicators to continue to monitor and analyze corporate purchase behaviour and seek out cost effective/efficient opportunities, standardization and provide value-added services.

#### Reporting on P-cards and Enhanced Transparency

Local governments wanting to enhance their accountability to taxpayers may want to consider new tools to make their procurement more transparent.

One such tool is the regular online publication of P-card reports and similar information on procurement activity. This can be published online on a regular basis, such as quarterly.

Using a web-based tool such as this, a local government can enhance its transparency, accountability and help ensure that its public procurement is effective, efficient and free of waste and corruption.

Such a tool is already being used successfully by the Province of B.C.

Local governments considering the use of such a tool will need to consider the resources required to implement it.

## FINDINGS

Council delegated the extensive authority over procurement to the chief administrative officer without a requirement for clear and comprehensive reporting back.

**1.2.129** We are encouraged by the City of Vernon's efforts in this area and would like to see the City consider additional performance indicators that would speak to the City's efforts in ensuring fair and equal access to doing business with the City of Vernon. This could include the percentage of operational procurement spending that is direct awarded, the number of formal supplier performance evaluations completed and others. Such information could assist the City's management and Council in fulfilling their oversight responsibilities. The City, however, should ensure that key performance indicators selected are aligned with the local government's overall goals, objectives and strategies as well as specific objectives for its procurement function. Small local governments may wish to explore opportunities to work cooperatively with other nearby local governments on the development of performance measurement and analysis tools, as there may be opportunities to cost share initiatives in this important area.

### **Council Oversight**

**1.2.130** We found that the Vernon City Council delegated its approval authority over procurement to City staff, for transactions of all sizes, with the exception of professional services such as auditing, banking, insurance and employee benefit plan brokerage services. This meant that, aside from these exceptions, there was no dollar value for a transaction above which Council approval was required.

**1.2.131** We found that Council or Council committees did not receive reports on specific procurement activities, for example the number of operational procurement contracts signed, including those directly awarded, or the number of exceptions to policy compliance and any associated corrective action. In addition, based on our review of the Council meetings minutes covering the period from 2010 to 2012, Council's review of budget-to-actual cost analysis was limited to reports provided by staff once a year as opposed to a more regular review such as one conducted on a quarterly basis.

**1.2.132** While it is Council's prerogative to delegate purchasing authority to staff and we do not suggest that Council should be directly involved in procurement activities, we would have expected Council, in addition to its existing oversight of the budgeting process, to exercise effective oversight over procurement activities by balancing the extensive authority it has delegated to the chief administrative officer with requirements for clear and comprehensive reporting to Council.

## CONCLUSION

The City of Vernon has put in place a number of procurement policies, procedures and practices intended to help achieve value for money in operational procurement. However, we noted that the City needs to strengthen its procurement policies and improve compliance with these policies.

**1.2.133** Overall, we found that the City of Vernon has put in place a number of procurement policies, procedures and practices intended to help achieve value for money in operational procurement. In particular, we found practices resulting in efficiencies, such as better inventory management.

**1.2.134** We noted that the City needs to strengthen its procurement policies and improve compliance with these policies in order to minimize procurement risks to the organization. Inconsistent compliance undermines the efforts underway in the City of Vernon to have a robust procurement regime. In addition, our audit found that the City needs to strengthen its gathering of information on operational procurement, its analysis, monitoring and reporting of meaningful results to senior management and Council.

**1.2.135** In our view, if the City of Vernon adopts the recommendations in this report and continues to look for ways to increase value for money, it will generate lasting benefits for the City's taxpayers.

## RECOMMENDATIONS

### Recommendation 1

The City of Vernon should improve its procurement policies and procedures by addressing the gaps stated below and ensuring they fully support the City's commitment to achieving best value for money spent. Overall, the City should establish a process to ensure that its procurement policies are complete, clear, reviewed and updated regularly and that all procurement practices are included in the policies. Specific areas requiring attention include:

- guidance as to when a purchase requires detailed written terms and conditions, whether provided in a contract or a purchase order, as well as related approval requirements;
- guidance on the length of a service contract before it has to be put up for competition;
- guidance on the level and nature of documentation required in support of procurement decisions;
- guidance on managing and reporting on contracts awarded without competition and on publishing notices of intent;
- guidance on procurement services' involvement in the evaluation process for open procurement;
- provisions covering vendor prequalification, communication with vendors, debriefing unsuccessful bidders, unsolicited proposals, contract dispute resolution with suppliers, vendor performance evaluation and the use of legal services in reviewing contracts;
- enhanced provisions relating to conflict of interest such as annual declarations by staff involved in procurement, a requirement for potential suppliers to sign a conflict of interest declaration, the establishment and maintenance of a list of related parties and potential conflicts of interest of staff and Council members and a review of the list as part of the procurement award process; and,

- updating of the City's P-card policy to ensure it is up to date and includes changes made previously to the purchasing policy, for example, the \$3,000 limit for a single P-card purchase.

### Recommendation 2

The City of Vernon should monitor and enforce compliance with its procurement policies and procedures, including ensuring that proper documentation is kept on file to support procurement decisions.

### Recommendation 3

The City of Vernon should manage its operational procurement strategically by improving data collection, analysis, monitoring and reporting. This should include:

- revising the City's procurement services objectives to ensure they are specific, relevant and measurable;
- developing key performance indicators for procurement services, monitoring progress and reporting to senior management and Council on the achievement of expected results;
- collecting additional procurement-related information to carry out analysis in support of procurement decision-making and reporting; and,
- automating, to the extent possible, and where appropriate, review processes that are currently carried out manually.



File: 1680-40

THE CORPORATION OF THE CITY OF VERNON

July 27, 2015

3400 - 30TH STREET VERNON, BRITISH COLUMBIA V1T 5E6  
TELEPHONE (250) 545-1361 FAX (250) 545-4048

OFFICE OF THE MAYOR

Mr. Arn van Iersel, CPA, FCGA  
201 – 10470 – 152<sup>nd</sup> Street  
Surrey, BC V3R 0Y3

Dear Mr. van Iersel:

**RE: Vernon's Response: Performance Audit of the Corporation of the City of Vernon, Achieving Value for Money in Operational Procurement**

The City of Vernon is pleased to receive the Auditor General for Local Government's findings acknowledging our commitment to managing procurement transactions, related risks and obtaining value for money in the interests of taxpayers. The proposed Final Audit Report (Audit Topic 1 – Report 2) recognizes the City of Vernon's commitment to continuous improvement in procurement, seeking to increase the efficiency and cost effectiveness of the function and to better inventory management.

Since the end of the audit period (2012), the City of Vernon has converted its chart of accounts, moving to a platform that allows for better information retrieval and management reporting. The City of Vernon has pursued continual improvement of our purchasing environment. The City has moved to a centralized purchasing environment, implemented electronic purchase orders, and document scanning of paid invoices, all in a move toward improving efficiency. Under Council direction, KPMG conducted a Core Service Review in 2013 which provided a real time assessment of overall service levels and the value for money provided by the City on behalf of taxpayers. These progressive actions to improve services and accountability to tax payers are not fully reflected in the Audit report and in fact the Audit states *"We understand that the City of Vernon has been making improvements to their procurement practices since our fieldwork was completed....this is not part of our audit report..."*.

The report presented specific references to sole source purchasing decisions that lacked formal documentation. Background information has been provided. These purchase decisions were made with local knowledge after careful consideration and would have been made with the same result regardless of the documentation retained for review after the fact.

The report references a lack of Council oversight. This Council has full stewardship of the budget and consistently monitors results of the Corporation and its Directors. Our Financial Plan and our Annual Report are prepared to international standards of best practice, and have received the recognition from the Government Finance Officers Association in various aspects since 2009.

July 27, 2015  
Mr. Arn van Iersel, CPA, FCGA  
Page 2

The report contains three recommendations for Vernon's consideration. These are addressed below.

The first relates to updating the City's purchasing policy to ensure it fully supports the City's commitment to achieving the best value for the money spent. Since 2012 policies have been updated through a number of incremental steps. The next update is scheduled for the first quarter of 2016.

The second relates to enforcement and monitoring of purchases to ensure documents are retained to support procurement decisions. Changes to policy and training programs for all staff, as directed by Council, will address this recommendation.

The third relates to improving collection, analysis and reporting of data. The City looks forward to receiving the pending AGLG perspectives booklet dealing with some key operation procurement matters for local government to consider. Specifically, the tools that may be relevant to local government such as key performance indicators for measuring a local government's effectiveness in carrying out operational procurement. Consideration will be given to practical recommendations at that time.

We wish you the best with your future audits.

Yours truly,



Akbal Mund  
Mayor

cc: Auditor General for Local Government  
Box 9036, Stn Prov Govt, Victoria, BC V8W 9A2

# CITY OF VERNON’S ACTION PLAN

AGLG RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE	TARGET TIMEFRAME
<p><b>RECOMMENDATION 1</b></p> <p>The City of Vernon should improve its procurement policies and procedures by addressing the gaps stated below and ensuring they fully support the City’s commitment to achieving best value for money spent. Overall, the City should establish a process to ensure that its procurement policies are complete, clear, reviewed and updated regularly and that all procurement practices are included in the policies. Specific areas requiring attention include:</p> <ul style="list-style-type: none"> <li>• guidance as to when a purchase requires detailed written terms and conditions, whether provided in a contract or a purchase order, as well as related approval requirements;</li> <li>• guidance on the length of a service contract before it has to be put up for competition;</li> <li>• guidance on the level and nature of documentation required in support of procurement decisions;</li> <li>• guidance on managing and reporting on contracts awarded without competition and on publishing notices of intent;</li> <li>• guidance on procurement services’ involvement in the evaluation process for open procurement;</li> <li>• provisions covering vendor prequalification, communication with vendors, debriefing unsuccessful bidders, unsolicited proposals, contract dispute resolution with suppliers, vendor performance evaluation and the use of legal services in reviewing contracts;</li> <li>• enhanced provisions relating to conflict of interest such as annual declarations by staff involved in procurement, a requirement for potential suppliers to sign a conflict of interest declaration, the establishment and maintenance of a list of related parties and potential conflicts of interest of staff and Council members and a review of the list as part of the procurement award process; and,</li> <li>• updating of the City’s P-card policy to ensure it is up to date and includes changes made previously to the purchasing policy, for example, the \$3,000 limit for a single P-card purchase.</li> </ul>	<p>Update procurement policy for consideration of Council.</p>	<p>Financial Services</p>	<p>1st Quarter 2016</p>

# CITY OF VERNON’S ACTION PLAN

AGLG RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE	TARGET TIMEFRAME
<b>RECOMMENDATION 2</b>			
<p>The City of Vernon should monitor and enforce compliance with its procurement policies and procedures, including ensuring that proper documentation is kept on file to support procurement decisions.</p>	<p>Consistent with the Recommendation #1, update procurement policies and educate staff involved in procurement on the policies requirements and compliance with it.</p>	<p>Financial Services</p>	<p>2nd Quarter 2016</p>
<b>RECOMMENDATION 3</b>			
<p>The City of Vernon should manage its operational procurement strategically by improving data collection, analysis, monitoring and reporting. This should include:</p> <ul style="list-style-type: none"> <li>• revising the City’s procurement services objectives to ensure they are specific, relevant and measurable;</li> <li>• developing key performance indicators for procurement services, monitoring progress and reporting to senior management and Council on the achievement of expected results;</li> <li>• collecting additional procurement-related information to carry out analysis in support of procurement decision-making and reporting; and,</li> <li>• automating, to the extent possible, and where appropriate, review processes that are currently carried out manually.</li> </ul>	<p>Evaluation and implementation of a purpose built system, to establish and manage objectives, leveraging financial and statistical data from a number of sources, to effectively measure performance. For regular reporting to Council.</p>	<p>Financial Services</p>	<p>4th Quarter 2016</p>

## ADDITIONAL INFORMATION PROVIDED BY THE CITY OF VERNON REGARDING THE CITY’S INITIATIVES UNDERTAKEN FROM THE AUDIT PERIOD FORWARD

YEAR	ACTIVITY DESCRIPTION	CONTINUOUS IMPROVEMENT AND PLANS FOR OPERATIONAL PROCUREMENT AND REPORTING SYSTEMS
<b>2012</b>	Launch of Newly Redesigned Chart of Accounts	In line with current Public Sector Accounting Board (PSAB) standards for reporting and disclosure allowing for better information retrieval. This forms the basis of annual budget reporting to Council.
	Accounts Payable & Purchasing Scanned & Linked Documents to ERP Financial System	Provides document integrity, streamlines process and provides sound audit trail.
	Updated Procurement Statistics Reports	Incorporated monthly Purchase Order (PO) activity statistics into existing report which was originally focused on inventory activity and statistics.
	Revised Purchasing Policy	Updated processes, approval thresholds, contract terms. Presented to and endorsed by Council.
<b>2013</b>	Core Services Review by KPMG	Launch and completion of core service review which reviewed all service and reporting levels. Directed by Council.
	Prequalification Services	Expanded annual prequalification that was exclusive to Hired Equipment to include Arborist, Geotech, HVAC & Construction Engineering Services.
	Reviewed BC Government Procurement Service Branch Corporate Supply Arrangements (CSA) for City of Vernon application	Consulted with BCPS CSA staff to access and facilitate Microsoft Licensing purchase for City of Vernon (COV). Developing bridging process to align CSA with COV purchasing policy and process.
	Reduced Inventory	Year over year decline in stock inventory carrying values of 31%.
	Council Strategic Priorities and Deliverables	Semi-annual reporting to Council in an open public meeting in a report card style is launched.

## ADDITIONAL INFORMATION PROVIDED BY THE CITY OF VERNON REGARDING THE CITY’S INITIATIVES UNDERTAKEN FROM THE AUDIT PERIOD FORWARD

YEAR	ACTIVITY DESCRIPTION	CONTINUOUS IMPROVEMENT AND PLANS FOR OPERATIONAL PROCUREMENT AND REPORTING SYSTEMS
2014	Revised Purchasing Policy	Updated processes, approval thresholds, contract terms, included liquor purchase and payment procedure. Presented to and endorsed by Council.
	Purchasing Webpage Updated	Updated all documents including Terms & Conditions on Purchasing webpage to be in alignment with corporate identity criteria.
	Increased Consultation with BC Government Procurement Services Branch	Participated in pilot process for CSA. Increased direct access to pricing agreements. Mapped opportunities for 2015 Procurement including Light Emitting Diode (LED) Streetlights, Playground Structures, Bear Proof Products and Information Technology related procurement. Executed sample buy of LED fixtures from CSA for technical evaluation and trials.
2015	Prequalification Services	Expanded annual prequalification to include Electrical, Traffic Control, Plumbing & Small Construction to Services to the existing list of Services.
	Increased Consultation with BC Government Procurement Services Branch	Accessed CSA agreements and applied to Playground, Bear Proof containment. Bulk LED purchase slated for December 2015 after technical evaluations of COV and other Municipalities completed.
	Procurement Documentation Standardization	Applied consistent Procurement Process Form reporting for all procurement staff and an expanded range of procurement files.
	Knowledge Management Initiative	Initiated access for City staff to evaluate technical proposals via links to shared folders eliminating duplicates.
	Review Financial System	Review reporting and functionality capabilities of core accounting system for potential future replacement.
	Variance Reporting	Continue refinement of financial variance reporting for the updated chart of accounts. Reported to the Finance Committee.

## ABOUT THE AUDIT

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

### Audit Objective

**1.2.136** The overall objective of this performance audit was to determine whether the City of Vernon managed operational procurement strategically and with due regard for value for money.

### Period Covered by the Audit

**1.2.137** The audit covered the period 2010 to 2012. We completed the majority of our audit work on August 31, 2014, but we also received and reviewed some additional information since that time.

### Audit Scope and Approach

**1.2.138** The audit included a review of the City of Vernon's performance in managing operational procurement. It did not include procurement by any entities consolidated in Vernon'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.

**1.2.139** To carry out the audit, we undertook data analysis, interviews, process walkthroughs and review of documentation. We sampled 25 operational procurement transactions and assessed them against the audit criteria.

**1.2.140** We assessed the City'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

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

**1.2.142** Below are the criteria we used to assess the City of Vernon:

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.

## ABOUT THE AUDIT

- b. Information provided to decision makers is comprehensive and covers the nature and breadth of procurement arrangements being planned.
- 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.

# ABOUT THE AUDIT

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.

## Performance Audit Process

1.2.143 At the beginning of the performance audit process, we shared key audit-related documents with the City of Vernon. 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 6: Performance Audit Process.

## EXHIBIT 6: Performance Audit Process



## APPENDIX 1 – PROCUREMENT TOOLS DEFINED

**Corporate Supply Arrangement (CSA) (“Supply Contract”)** – An arrangement in which a supplier has offered to provide goods or services for a specified period of time in accordance with agreed terms and conditions.

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

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

**New West Partnership Trade Agreement (NWPTA)** - A trade accord between Alberta, British Columbia, and Saskatchewan that promotes interprovincial collaboration.

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

**Purchase Order (PO)** – 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 (EOI or RFEI)** – 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 (RFI)** – 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 (RFP)** – A document outlining a requirement and asking vendors to respond with a proposed solution, their qualifications and price.

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

**Service Contract** – an agreement where a contractor supplies time, effort, and/or expertise instead of a good. (<http://www.businessdictionary.com/definition/service-contract.html>)

**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>

#### 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



**AUDITOR GENERAL FOR  
LOCAL GOVERNMENT**

ACCESSIBILITY • INDEPENDENCE • TRANSPARENCY • PERFORMANCE