



## **The Corporation of the City of London** Procurement process assessment

Audit performed: July – September 2018  
Report issued: October 26, 2018

# Introduction

Executive summary	1
Detailed observations and recommendations	4
Appendix 1: Internal audit detailed scope	8
Appendix 2: Internal audit rating scale	10
Appendix 3: Stakeholder involvement	11

# Executive summary

## Introduction

Internal Audit conducted a procurement process assessment from July to September 2018, as part of the 2017-2018 Internal Audit plan. The City provides professional Procurement Services for over 100 City Services and manages over 100 Request for Tenders and over 60 Request for Proposals annually. Procurement Services provides various informal and formal Request for Quotations that total to approximately \$300 million in spending annually. The City also recently implemented an eProcurement solution.

The purpose and objective of this review was to assess the operational effectiveness and efficiency of processes and controls undertaken by the Purchasing and Supply Section following implementation of an eProcurement solution including:

- Review and assess the governance framework and organization structure for the Purchasing and Supply Section;
- Review and assess Purchasing and Supply Section business processes and relevant key controls;
- Assess the effectiveness of the City's controls in place for the eProcurement system (known as bids&tenders); and
- Review and identify overall process improvement opportunities within the Purchasing and Supply Section.

The detailed internal audit scope can be found in **Appendix 1** of this report.

## Key strengths

**Approval of award matrix:** The approval limits detailed in the Procurement of Goods and Services Policy establishes clear requirements to control purchasing of goods or services. Specifically, the current matrix requiring Committee and City Council to approve award of tenders greater than \$3,000,000 is effective and efficient and aligned with other local government procurement requirements. There is also a clear understanding amongst management and staff that all tenders with an expected award greater than \$3,000,000 must be approved by Committee and City Council.

**eProcurement:** The recently implemented eProcurement solution demonstrates the City's commitment to innovation including an enhanced control environment. This new eProcurement solution has not only established a more balanced mix of manual and automated controls, it has also introduced opportunities for more reliable data retention and reporting and enabled Purchasing and Supply Division staff to focus efforts on more value-added priorities.

**Purchase card audit:** The current purchase card audit framework is effectively designed to mitigate risks utilizing an approved template and reliable reports. Management in Accounts Payable and Purchasing and Supply demonstrated effective activities to coordinate on a quarterly basis to perform a review of purchase card transactions to identify areas of concern including transactions that may not comply with Procurement of Goods and Services Policy requirements. Additionally, Management performed adequate follow-up procedures on identified items to support informed decision-making.

**Staff standard operating procedures:** Purchasing and Supply Division management and staff are committed to documenting all relevant staff procurement activities. Additionally, an inventory of all Standard Operating Procedures ("SOP") was created centrally; this listing includes a schedule to review and update each SOP on an annual basis.

## Key observations

Deloitte’s review of Purchasing and Supply Division practices identified the following observations:

Priority	High	Medium	Low	Leading Practice
Observations	0	2	2	1

### Medium priority observations

#### PPA 1.01: Vendor management

Although the City maintains an inventory of third parties (vendors/ suppliers) within JD Edwards, varying vendor requirements (e.g. payment terms) has resulted in multiple addresses for the same vendor within the system. There is a need for a single supplier database to record pertinent vendor information. In addition, there is a need to provide further supporting guidelines for City management and staff to better understand practices for executing performance evaluation activities. Suboptimal vendor management practices could lead to unidentified exposures for the City, such as incorrect payments, and insufficient guidelines to support vendor management activities may lead to non-compliance with City expectations.

#### Management Comments

Purchasing and Supply Management agrees that further supporting guidelines need to be provided with respect to vendor performance evaluation. Guidelines will be developed to build on what is laid out in Section 20.5 of the Procurement of Goods and Services Policy. Further, Finance will look to explore the opportunity and feasibility to build on the existing address book in JD Edwards, associating evaluations with suppliers, creating a single database and opportunities to better group addresses by vendor name.

John Freeman, Manager III, Purchasing and Supply  
August 31, 2019

#### PPA 2.01: File retention and maintenance

Purchasing and Supply has developed a document retention guideline; however, Internal Audit noted that the file retention and maintenance practices vary for document management and are inconsistent with established guidelines. Currently, Purchasing and Supply Division staff are storing documents in both physical and electronic copies. Misinterpreted document retention expectations may lead to undesired practices and non-compliance with City expectations or legislative requirements.

#### Management Comments

Purchasing & Supply will complete an SOP guideline for the current file retention process which takes into consideration the hybrid approach of keeping both electronic and paper copies of procurement records. Noting that some records at this time are best kept electronically, whereas others are best kept paper based.

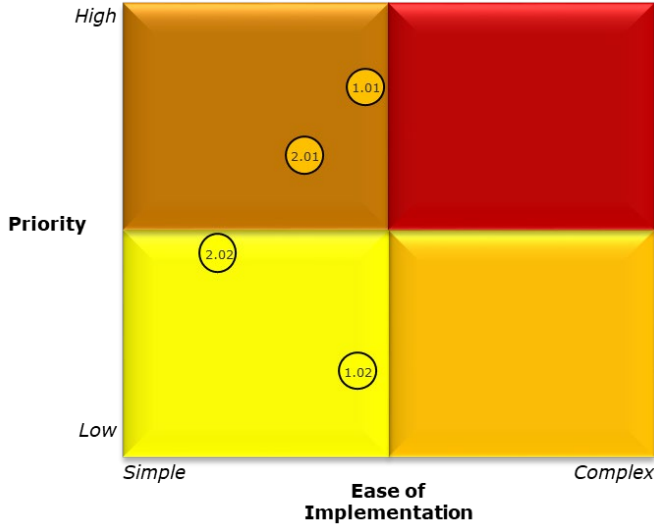
John Freeman, Manager III, Purchasing and Supply  
December 31, 2018

### Leading practice observations

#### Approvals and signatures

Electronic or digital signatures have not yet been adopted by the City. The current method to approve items such as purchase certificates, purchase requisitions and other procurement related items is manually intensive, requiring approvals to be in the form of original signatures. Management should consider evaluating the available technologies to assist with creating a more efficient and effective approval process.

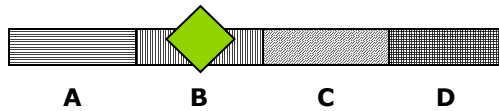
**Priority heat map**



**Conclusion**

Based on our assessment of Purchasing and Supply Division practices we noted two medium priority observations with the potential to impair the effectiveness of current processes, two low priority observation with minor control or efficiency improvement opportunities, and one leading practice with the opportunity to improve the maturity model. The issues noted in the report should be addressed in a timely manner to enhance current controls and mitigate relevant risks.

The following scale depicts our overall process conclusion as it relates to the scope of areas audited as outlined above:



Description	Definition
A	No or insignificant process control or efficiency weaknesses identified
B	Minor process control or efficiency weaknesses identified
C	Moderate process control or efficiency weaknesses identified
D	Significant control process or efficiency weaknesses identified Impairing the effectiveness of the process

# Detailed observations and recommendations

## Observation 1.0 – Purchasing and Supply governance – vendor management

Observation	Implication	Recommendation	Management comments and action plan	Responsible party and timing
<p><b>MP PPA 1.01 Vendor management</b> Per discussions with stakeholders, as well as review of documentation, Internal Audit identified the following themes with respect to vendor management:</p> <p><b>Comprehensive supplier inventory:</b> Although the City maintains an inventory of third parties within JD Edwards, varying vendor requirements (e.g. payment terms) has resulted in multiple addresses for the same vendor in the system module.</p> <p><b>Integrated reporting:</b> A single supplier database for City management and staff to record and store pertinent vendor non-financial information such as performance results is needed.</p> <p><b>Guidelines:</b> Although vendor performance evaluation requirements can be found in the Procurement of Goods and Services Policy, there is a need to provide further supporting guidelines for City management and staff to better understand practices for executing vendor performance evaluation activities.</p>	<p><b>PPA 1.01 Vendor management</b> Suboptimal vendor management practices could lead to unidentified exposures for the City, such as incorrect payments.</p> <p>Insufficient guidelines to support vendor management activities may lead to non-compliance with City expectations.</p>	<p><b>PPA 1.01 Vendor management</b> Financial Services Management should consider opportunities to reduce the number of addresses for each vendor in the master file and to rationalize vendor records into a single database for City management and staff to record and store pertinent vendor non-financial information.</p> <p>Additionally, Financial Services Management should consider providing further supporting guidelines for City management and staff for executing vendor performance evaluation activities.</p>	<p><b>Management agrees</b> Purchasing and Supply Management agrees that further supporting guidelines need to be provided with respect to vendor performance evaluation. Guidelines will be developed to build on what is laid out in Section 20.5 of the Procurement of Goods and Services Policy. Further, Finance will look to explore the opportunity and feasibility to build on the existing address book in JD Edwards, associating evaluations with suppliers, creating a single database and opportunities to better group addresses by vendor name.</p>	<p>John Freeman  Manager III, Purchasing and Supply  August 31, 2019</p>

<p><b>LP</b></p>	<p><b>PPA 1.02 Service delivery</b>                  There are informal practices in place for Management to measure, share, and monitor the effectiveness of Purchasing and Supply service delivery to City Service Areas for procurement related activities.</p>	<p><b>PPA 1.02 Service delivery</b>                  There is risk that the Purchasing and Supply Division is not identifying improvements or changes needed for service delivery operations in a timely manner.</p>	<p><b>PPA 1.02 Service delivery</b>                  Purchasing and Supply Management should formalize a service delivery program to measure procurement effectiveness.                  Management should review the program periodically to ensure performance indicators are still relevant and effective.</p>	<p><b>Management agrees</b>                  Purchasing &amp; Supply will implement a survey mechanism to gather data to measure procurement effectiveness, creating a framework for analysing feedback.</p>	<p>John Freeman                  Manager III,                  Purchasing and Supply                  April 30, 2019</p>
------------------	--	--	---	--	--

**Observation 2.0 – Purchasing and Supply Division operations**

	Observation	Implication	Recommendation	Management comments and action plan	Responsible party and timing
MP	<p><b>PPA 2.01 File retention and maintenance</b></p> <p>Although Purchasing and Supply has developed a document retention guideline, Internal Audit noted that file retention and maintenance practices vary for document management and are inconsistent with established guidelines. Currently, Purchasing and Supply Division staff are storing documents in both physical and electronic copies.</p>	<p><b>PPA 2.01 File retention and maintenance</b></p> <p>Misinterpreted document retention expectations may lead to undesired practices and non-compliance with City expectations or legislative requirements.</p>	<p><b>PPA 2.01 File retention and maintenance</b></p> <p>Purchasing and Supply Management should enhance the current standard operating procedure (SOP) guideline to clarify file retention expectations.</p> <p>Additionally, Management should establish a file maintenance schedule to periodically dispose and destroy of old documentation, with consideration given to legislative requirements and City expectations.</p>	<p><b>Management agrees.</b></p> <p>Purchasing &amp; Supply will complete an SOP guideline for the current file retention process which takes into consideration the hybrid approach of keeping both electronic and paper copies of procurement records. Noting that some records at this time are best kept electronically, whereas others are best kept paper based.</p>	<p>John Freeman</p> <p>Manager III, Purchasing and Supply</p> <p>December 31, 2018</p>
LP	<p><b>PPA 2.02 Management standard operating procedures (SOP)</b></p> <p>Internal Audit noted a commitment to documenting all relevant staff procurement activities as well as the central creation of staff standard operating procedures.</p> <p>However, Internal Audit noted that standard management-related business processes or guidelines are not fully documented for Purchasing and Supply management activities.</p>	<p><b>PPA 2.02 Management SOP</b></p> <p>Insufficient documentation of management practices could lead to undesired process activities and may restrict new management from fully understanding relevant processes and controls when undertaking their responsibilities.</p>	<p><b>PPA 2.02 Management SOP</b></p> <p>Purchasing and Supply Management should create a management related SOP inventory listing and document all standard operating procedures (SOP) relevant to management.</p>	<p><b>Management agrees.</b></p> <p>Purchasing and Supply Management will develop routine work processes via SOP's specific to the management of Purchasing and Supply.</p>	<p>John Freeman</p> <p>Manager III, Purchasing and Supply</p> <p>January 31, 2019</p>



### Leading Practice 3.0 – Approvals and Signatures

---

Observation	Implication	Recommendation
<p><b>PPA 3.0 Approvals and signatures</b> Electronic or digital signatures have not yet been adopted by the City. The current method to approve items such as purchase certificates, purchase requisitions and other procurement related items is manually intensive, requiring approvals to be in the form of original signatures.</p>	<p><b>PPA 3.0 Approvals and signatures</b> Failure to utilize available technologies may lead to suboptimal approval processes and timelines.</p>	<p><b>PPA 3.0 Approvals and signatures</b> Management should collaborate with internal City stakeholders to assess opportunities to adopt electronic and/or digital signatures.</p>

# Appendix 1: Internal audit detailed scope

Specifically, the internal audit addressed the following areas:

## **Review and assess the governance framework and organization structure for the Purchasing and Supply Section**

- Reviewed and assessed the current Purchasing and Supply Section's organizational structure and departmental charts to ensure roles, reporting lines, and responsibilities are effectively designed and established to enforce existing policies, guidelines, and procedures;
- Assessed whether roles, reporting lines, and responsibilities are adequately understood by staff to ensure staff are enabled to fulfill their responsibilities;
- Assessed governing guidelines and procedures in place to assure the procurement process is adhering to legislation and meeting established timelines;
- Reviewed and assessed existing procedures to communicate with other stakeholders involved in the process within the procurement process; and
- Reviewed and assessed the annual compliance monitoring and reporting activities.

## **Review and assess Purchasing and Supply Section business processes and relevant key controls**

- Reviewed the existing processes within the Purchasing and Supply Section to administer and undertake the procurement process for goods and services using purchase cards (P Cards), centralized informal quotes, formal quotes, formal request for qualifications, formal proposals, formal tenders, and assess its adequacy in complying with the Procurement of Goods and Services Policy, procedures and guidelines;
- Reviewed a select sample of purchases of goods and services and evaluate procedures to assess the adequacy to mitigate residual business risks (i.e., adhering to Procurement of Goods and Services Policy, etc.), assure transparency, and efficiently execute the process;
- Reviewed the procurement process and evaluate procedures to validate that purchases of goods and services have been administered in a timely manner and within established timelines;
- Reviewed the process in place for the Purchasing and Supply Section to cancel the procurement contract of goods and services;
- Reviewed the process in place for the Purchasing and Supply Section to communicate with internal stakeholders on questions related to a specific procurement of goods and services;
- Reviewed existing practices for Purchasing and Supply Section to solicit and incorporate feedback from internal and external stakeholders into the purchasing processes; and
- Reviewed and assessed the contract management and monitoring procedures performed by a sample of departments to ensure compliance Purchasing and Supply Section requirement.

## **Assess the effectiveness of the City's controls in place for the eProcurement system (known as Bids and Tenders):**

- Gained an understanding of the internal controls, including IT general controls, currently in place for the eProcurement system;
- Evaluated alignment of internal controls with that of project expectations;
- Reviewed and assessed on a sample basis, the effectiveness of existing internal controls including system access controls, business process controls, and segregation of duties controls;
- Evaluated the internal control framework to ensure an optimum mix of manual and automated controls has been implemented to completely and accurately validate data;

- Reviewed documentation related to the procedures to enter new data into the system and assess to ensure that information is effectively captured;
- Reviewed knowledge of the system reporting and functionalities to ensure City personnel are adequately trained and have appropriate access to resources for efficient system use.





**Review and identify overall process improvement opportunities within the Purchasing and Supply Section**

- Reviewed the existing process for administrative award of tenders to determine if there is value in an incremental increase to the existing threshold;
- Reviewed and assessed existing procurement processes to identify opportunities for efficiency or standardization.

# Appendix 2: Internal audit rating scale

## Individual observation prioritization

Internal Audit will prioritize each observation and recommendation within a report using a three point rating scale. The three point rating scale will be as follows:

Description	Definition
 High	Observation is high priority and should be given immediate attention due to the existence of either significant internal control risk or a potential significant operational improvement opportunity.
 Medium	Observation is a moderate priority risk or operational improvement opportunity and should be addressed in the near term.
 Low	Observation does not present a significant or medium control risk but should be addressed to either improve internal controls or process efficiency.
 Leading Practice	Consideration should be given to implementing recommendations in order to improve the maturity of the process and align with leading practices.

# Appendix 3: Stakeholder involvement

In conducting the assessment, the following management and staff were interviewed to gain an understanding of the City’s Purchasing and Supply Section processes and practices.

Stakeholder	Position
Anna Lisa Barbon	Managing Director, Corporate Services, City Treasurer and Chief Financial Officer
Ian Collins	Director, Financial Services
John Freeman	Manager III, Purchasing and Supply
Geoff Smith	Manager I, Purchasing and Supply Operations
Sarah Denomy	Procurement Officer
Chris Ginty	Procurement Officer
Mary Ma	Procurement Officer
John Stevely	Procurement Officer
Ian Harris	Procurement Specialist
Chris Rinehart	Procurement Specialist
Billy Sevier	Procurement Specialist
Suzie Oliveira	Procurement Assistant
Judy Spencer	Procurement Assistant
Various – Deloitte met with various management and staff in select Service Areas to gather an in-depth understanding of purchasing practices and perform audit procedures.	

# Appendix 4: Audit procedures performed

As part of the Procurement Process Review the following procedures were performed:

- Conducted a planning meeting with the Managing Director of Corporate Services and City Treasurer and Chief Financial Officer, Director of Financial Services, Manager of Purchasing and Supply, and Manager of Purchasing and Supply Operations;
- Updated and issued a finalized Project Charter and request for information;
- Conducted meetings and interviews with Purchasing and Supply management and staff to obtain an understanding of:
  - The governance framework and organization structure for the Purchasing and Supply Section,
  - Purchasing and Supply Section business processes and relevant key controls,
  - Purchasing and Supply Section’s use of their eprocurement system bids&tenders, and
  - Existing opportunities within procurement business operations to increase efficiency and standardization;
- Obtained documentation regarding relevant procedures and controls to perform an inspection of:
  - Procurement of Goods and Services Policy;
  - Conflict of Interest Policy;
  - Standard procurement operating procedures;
  - EProcurement project management and implementation documentation;
  - Listing of 2018 year-to-date procurement requests (qualification, quotation, proposal, tender);
  - Sample completed procurement files;
  - Listing of 2017 purchase card transactions;
  - 2017 purchase card transaction audit;
  - Sample communications (internal and external);
  - Purchasing and Supply Division job descriptions;
  - Relevant procurement forms and templates (e.g., Procurement Initiation Approval, etc.);
- Conducted sample testing activities related to procurement, vendor management, and contract management processes and controls as well as communication protocols, and management oversight activities;
- Drafted preliminary observations and verified observations with management;
- Conducted a closing meeting with key management stakeholders to validate and communicate our findings; and
- Issued this internal audit report with our detailed observations

# Deloitte.

**[www.deloitte.ca](http://www.deloitte.ca)**

Deloitte, one of Canada's leading professional services firms, provides audit, tax, consulting, and financial advisory services. Deloitte LLP, an Ontario limited liability partnership, is the Canadian member firm of Deloitte Touche Tohmatsu Limited.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

© Deloitte LLP and affiliated entities.